SYSTEMAX INC

FORM 10-K
(Annual Report)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

or

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

For the transition period from to

Commission File Number: 1-13792

Systemax Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☒
Non-Accelerated Filer ☐	Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2016, which is the last business day of the registrant's most recently completed second fiscal quarter, was approximately $96,937,794 . 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 10, 2017 was 36,944,036 shares.

Documents incorporated by reference: Portions of the Proxy Statement of Systemax Inc. relating to the 2017 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

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PART I

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

Forward Looking Statements

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

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

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

- risks involved with e-commerce, including possible loss of business and customer dissatisfaction if outages or other computer-related problems should preclude customer access to our products and services
- our information systems and other technology platforms supporting our sales, procurement and other operations are critical to our operations and disruptions or delays have occurred and could occur in the future, and if not timely addressed would have a material adverse effect on us
- general economic conditions will continue to impact our business
- technological change has had and can continue to have a material effect on our product mix and results of operations
- sales tax laws or government enforcement priorities may be changed which could result in e-commerce and direct mail retailers having to collect sales taxes in states where the current laws and interpretations do not require us to do so
- our substantial international operations are subject to risks such as fluctuations in currency rates, foreign regulatory requirements and political uncertainty
- and managing various inventory risks, such as being unable to profitably resell excess or obsolete inventory and/or the loss of product return rights and price protection from our vendors
- meeting credit card industry compliance standards in order to maintain our ability to accept credit cards
- timely availability of existing and new products
- risks associated with delivery of merchandise to customers by utilizing common carrier delivery services
- borrowing costs or availability, including our ability to maintain satisfactory credit agreements and to renew credit facilities
- pending or threatened litigation and investigations
- the availability of key personnel
- the continuation of key vendor relationships and the availability of credit insurance to key vendors

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

Item 1. Business.

General

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

Recent developments

The Company currently operates and is internally managed in two reportable segments - Industrial Products Group ("IPG") and EMEA Technology Products Group ("EMEA"). Smaller business operations and corporate functions are aggregated and reported as an additional segment – Corporate and Other ("Corporate"). As previously disclosed in December 2015, the Company sold certain assets and liabilities of North American Technology Group ("NATG") business and at that time began the wind-down of the remaining business. This wind-down is substantially completed although the Company has continued with collecting accounts receivable, settling accounts payable, marketing remaining leased facilities, as well as, settling remaining lease obligations and other contingencies during the current year. These wind-down activities will continue in 2017.

On September 2, 2016 the Company sold certain assets of its Misco Germany operations which had been reported as part of its EMEA segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08 (described below), prior and current year results of the German operations are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of Misco Germany included in continuing operations were $33.9 million and the net loss, including approximately $3.7 million of intercompany charges, was $6.4 million.

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

Operating History and Restructuring of NATG Operations

As disclosed in its Form 10-K for the fiscal year 2015, the Company announced a restructuring of its NATG business in March 2015. The NATG segment sold products categorized as Information and Communications Technology ("ICT") and Consumer Electronics ("CE") products. These products included computers, computer supplies and consumer electronics which were marketed in North America. The Company followed the guidance under Accounting Standards Update ("ASU") 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which required disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU 2014-08 in order for a disposal to qualify for discontinued operations presentation in the financial statements, the disposal must be a "strategic shift" with a major impact for the reporting entity. If the entity meets this threshold, only the components that were in operation at the time of disposal are presented as discontinued operations. The sale of the NATG business in December 2015 had a major impact on the Company and therefore met the strategic shift criteria. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three remaining retail stores. Accordingly, these components and the results of operations have been adjusted in the accompanying financial statements to reflect their presentation in discontinued operations. For a discussion of the accounting and wind-down of the NATG business, see Note 1, Note 3 and Note 8 to the consolidated financial statements included in Item 15 of this Form 10-K.

Industrial Products

IPG sells a wide array of maintenance, repair and operational ("MRO") products which are marketed in North America. Most of these products are manufactured by other companies; however, the Company does offer a selection of products that are manufactured for our own design and marketed under the trademarks: *Global™, GlobalIndustrial.com™, Nexel™ Relius™, Paramount™ and Interion™.* Industrial products accounted for 43%, 38% and 26% of our net sales from continuing operations in 2016, 2015 and 2014, respectively reported on a U.S. Generally Accepted Accounting Principles ("GAAP") basis.

Technology Products – EMEA

EMEA sells products categorized as ICT and CE as well as related technical services such as configuration, implementation, network security, and other technical services. These products are primarily marketed in France, the United Kingdom, the Netherlands, Italy, Spain and Sweden and related technical services are marketed in France, the United Kingdom and the Netherlands. Substantially all of these products are manufactured by other companies. EMEA accounted for 57% of our GAAP net sales from continuing operations in 2016, 2015 and 2014, respectively.

Technology Products – NATG

NATG sold ICT and CE products. These products were marketed in North America. Substantially all of these products were manufactured by other companies; however, the Company did offer a selection of products that were manufactured for our own design and marketed on a private label basis. NATG accounted for 0%, 5% and 17% of our GAAP net sales from continuing operations in 2016, 2015 and 2014, respectively.

See Note 3 and Note 12 to the consolidated financial statements included in Item 15 of this Form 10-K for additional financial information about our business as well as information about our geographic operations.

Products

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

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

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

Sales and Marketing

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

Relationship Marketers

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

E-commerce

We currently operate multiple e-commerce sites, including:

North America	Europe
www.globalindustrial.com	www.misco.co.uk
www.globalindustrial.ca	www.misco.fr
www.nexelwire.com	www.misco.nl
www.chdistgov.com	www.misco.it
www.industrialsupplies.com	www.misco.es
	www.misco.se
	www.misco.be
	www.inmac-wstore.com

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

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

Catalogs

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

Customer Service, Order Fulfillment and Support

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

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

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

Suppliers

We purchase substantially all of our products and components directly from manufacturers and large wholesale distributors. Two vendors accounted for 10% or more of our purchases in 2016: one vendor accounted for 15.2% and another vendor accounted for 13.8%. Two vendors accounted for 10% or more of our purchases in 2015 and 2014: one vendor accounted for 12.2% and 12.6%, respectively; another vendor accounted for 10.9% and 11.6%, respectively. Excluding NATG operations, no vendor accounted for 10% or more of our purchases in 2015 or 2014. The loss of these vendors, or any other key vendors, could have a material adverse effect on us .

Most private label products are manufactured by third parties to our specifications.

Competition and Other Market Factors

Industrial Products

The market for the sale of industrial products in North America is highly fragmented and is characterized by multiple distribution channels such as small dealerships, direct mail distribution, internet-based resellers, large warehouse stores and retail outlets. We face competition from large diversified MRO distributors such as Grainger Inc., MSC Industrial Direct Inc., Fastenal Inc., and other large retailers, including e-commerce retailers such as Amazon. We also face competition from manufacturers' own sales representatives, who sell industrial equipment directly to customers, and from regional or local distributors. 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 sales representatives, the internet and catalogs are effective and convenient distribution methods to reach mid-sized facilities that place many small orders and require a wide selection of products. In addition, because the industrial products market is highly fragmented and generally less brand oriented, we believe it is well suited to private label products.

Technology Products

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

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

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

Employees

As of December 31, 2016, we employed a total of approximately 2,800 employees, of whom 1,200 were in North America and 1,600 were in Europe and Asia.

Seasonality

Seasonality does not have a material effect on the Company's continuing IPG and EMEA businesses.

Environmental Matters

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

Financial Information About Foreign And Domestic Operations

We currently sell substantially all of our products through established sales channels to our customers in North America (primarily the United States and Canada) and Europe. We also export product to customers located outside of our established sales channels which export sales are de minimis in relation to our overall sales total. Approximately 58.8%, 63.5%, and 65.6% of our GAAP net sales from continuing operations during 2016, 2015 and 2014, respectively were made by subsidiaries located outside of the United States. For information pertaining to our international operations, see Note 12, "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, excluding discontinued operations, in those two geographic markets (in millions):

	North America	Europe and Asia	Total
2016			
Net sales	$ 719.2	$ 960.9	$ 1,680.1
Operating income (loss)	$ 16.8	$ (12.7)	$ 4.1
Identifiable assets	$ 290.5	$ 275.6	$ 566.1
2015			
Net sales	$ 801.8	$ 1,052.9	$ 1,854.7
Operating income (loss)	$ (13.5)	$ (10.6)	$ (24.1)
Identifiable assets	$ 470.3	$ 239.8	$ 710.1
2014			
Net sales	$ 914.3	$ 1,189.9	$ 2,104.2
Operating income (loss)	$ 9.4	$ (23.1)	$ (13.7)
Identifiable assets	$ 582.9	$ 314.0	$ 896.9

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

Available Information

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

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

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

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

Item 1A. Risk Factors.

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

Risks Related to the Economy and Our Industries

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

  Current economic conditions may cause the loss of consumer confidence in the Company's domestic and international markets which we believe resulted in a decrease of spending in the categories of products we sell in 2016, 2015 and 2014, which mostly impacted our now discontinued NATG business and certain of our markets within our EMEA business. With conditions in the EMEA market for technology products remaining highly competitive, reductions in our selling prices and pressure on freight sales, as we have experienced in recent years in most of our markets, have adversely affected our revenue and profits and could continue to do so in the future. It is also possible that as manufacturers react to the marketplace they may reduce manufacturing capacity or allocations to their customers 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, (as well as due to senior management turnover, loss of key employees, disruption due to internal technology platform transitions or inefficient or delayed implementation of strategic initiatives) which occurred in 2013 and 2014 in the discontinued NATG business and to some extent in our EMEA business between 2014 and 2016. Our results of operations depend upon, among other things, our ability to maintain and increase sales volumes with existing customers, our ability to limit price reductions and maintain our margins, our ability to attract new customers and the financial condition of our customers. A decline in the economy that adversely affects our customers, causing them to limit or defer their spending, would likely adversely affect our sales, prices and profitability as well, which occurred in 2013 and 2014 in the discontinued NATG business and to some extent in some of our EMEA business between 2014 and 2016. 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, as occurred in the discontinued NATG business, in certain EMEA operations, and to lesser extent in our IPG business. These initiatives, as well as any future workforce and facilities reductions, may not be sufficient to meet current and future changes in economic and market conditions and allow us to continue to achieve the growth rates and re-attain the levels of profitability we experienced prior to the recent market downturns. In addition, costs actually incurred in connection with our restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

See *Operating History and Restructuring of NATG Operations* for a discussion of the closing of our NATG business in 2015.

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

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

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

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

Our gross margins are also dependent on the mix of products we sell and could be adversely affected by a continuation of our customers' shift to lower-priced products.

- *Sales tax laws may be changed or interpreted differently which could result in ecommerce and direct mail retailers having to collect sales taxes in states where the current laws do not require us to do so. This could reduce demand for our products in such states and could result in us having substantial tax liabilities for past sales.*

Our United States subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe sufficient nexus exists which obligates us to collect sales tax. Other states may, from time to time, claim that we have state-related activities constituting physical nexus to require such collection. Additionally, many other states seek to impose sales tax collection or reporting obligations on companies that sell goods to customers in their state, or directly to the state and its political subdivisions, regardless of physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the income 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 or reporting obligations on all e-commerce and/or direct mail 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. See *Legal Proceedings.*

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

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

- Environmental Matters

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

Risks Related to Our Company

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

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

  Our information systems networks, including our websites, and applications could be adversely affected by viruses or worms and may be vulnerable to malicious acts such as hacking. The availability and efficiency of sales via our websites could also be adversely affected by "denial of service" attacks and other unfair competitive practices. 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 have exited our NATG business and could incur costs in excess of our estimated exit expenses.*

  In response to significant market pressures described above under the heading *Operating History and Restructuring of NATG operations,* the Company negotiated the sale of certain assets and liabilities of the NATG business. The sale transaction closed on December 1, 2015. The Company has substantially completed most of the NATG wind-down activities, although activities related to collecting remaining accounts receivable, subleasing remaining retail store and warehouse spaces and settling accounts payable and other contingent liabilities continue. The Company expects that additional NATG wind-down costs incurred during 2017 or later will aggregate between $1 and $5 million, which is expected to be presented in discontinued operations.

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

- *The establishment and integration of our shared service center in Hungary exposes us to various technology, regulatory and economic risks.*

  We opened our shared services center in Budapest, Hungary during the second quarter of 2013 to facilitate the continued growth of our EMEA business through operational efficiencies and enhanced internal processes. This facility provides administrative and back office services for the existing European business. As we have located these functions for all our EMEA business (other than France) in one location, if there were any event that materially, adversely impacted smooth operation of the Hungary shared services center, such as technology and/or communications disruptions or outages, labor/employee disputes, strikes or slowdowns, mass transit issues impacting our employees, or political/economic instability, it would likely have an adverse impact on all of our EMEA business (other than France) and would have a material adverse effect on our results of operations.

  As an incentive to locate in Hungary, the Hungarian Investment and Trade Agency ("HITA") agreed to reimburse the Company for approximately 8% of payroll costs, up to a maximum of approximately $3.1 million, for the first 505 employees hired at the shared service center. The reimbursement is limited to the first twenty four months of employment for employees hired by December 2015 (or such lower number of employees as is negotiated with HITA) with all such reimbursements being completed by December 2017. In return for this incentive, the Company has committed to maintaining certain employment levels through 2020. The ongoing commitment is for less than 505 employees and accordingly the payroll cost reimbursement will be proportionally less. Failure by the Company to maintain these employment levels will result in the repayment of a portion or all of the related reimbursements we may receive with interest.

- *We rely on third party suppliers for most of our products and services. The loss or interruption of these relationships could impact our sales volumes, the levels of inventory we must carry, and/or result in sales delays and/or higher inventory costs from new suppliers. Co-operative advertising and other sales incentives provided by our suppliers have decreased and could decrease further in the future thereby increasing our expenses and adversely affecting our results of operations and cash flows.*

  We purchase a substantial portion of our products from major distributors and directly from large manufacturers who may deliver those products directly to our customers. 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.

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

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

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

  The Company has made acquisitions in the past of other businesses and these acquisitions resulted in the recording of significant intangible assets and/or goodwill. We are required to test goodwill and intangible assets annually to determine if the carrying values of these assets are impaired or on a more frequent basis if indicators of impairment exist. If any of our goodwill or intangible assets are determined to be impaired we may be required to record a significant charge to earnings in the period during which the impairment is discovered. In the fourth quarter of 2016 within the Company's EMEA operations, an impairment charge related to goodwill of approximately $0.3 million was recorded and within IPG segment, an impairment charge related to goodwill and intangible assets of $0.1 million was recorded. Previously, impairment charges on goodwill and intangible assets occurred in 2014 for the NATG business. Although the carrying amounts of intangible assets and goodwill are relatively small as of December 31, 2016, to the extent the Company makes acquisitions in the future there could again be material amounts of such assets recorded and subject to future impairment testing.

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

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

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

  The functional currencies of our businesses outside of the U.S. are the local currencies. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets, liabilities, net sales, cost of goods sold and operating margins and could result in exchange gains or losses. The primary currencies to which we have exposure are the European Union Euro, Canadian Dollar and the British Pound Sterling. Exchange rates between these currencies and the U.S. Dollar in recent years have fluctuated significantly and may do so in the future. Our operating results and profitability may be affected by any volatility in currency exchange rates and our ability to manage effectively our currency transaction and translation risks. For example, we currently have operations located in numerous countries outside the United States, and non-U.S. sales accounted for approximately 58.8% of our net sales from continuing operations during 2016. To the extent the U.S. dollar strengthens against foreign currencies, our foreign revenues and profits will be reduced when translated into U.S. dollars.

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

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

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

- *We depend on bank credit facilities to address our working capital and cash flow needs from time to time, and if we are unable to renew or replace these facilities, or borrowing capacity were to be reduced our liquidity and capital resources may be adversely affected.*

  We require significant levels of capital in our business to finance accounts receivable and inventory. We maintain credit facilities in the United States 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. Our ability to obtain future and/or increased financing to satisfy our requirements as our business expands could be adversely affected by economic and market conditions, credit availability and lender perception of our Company and industry .

- *If we fail to observe certain restrictions and covenants under our credit facilities the lenders could refuse to waive such default, terminate the credit facility and demand immediate repayment, which would adversely affect our cash position and materially adversely affect our operations.*

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

- incur additional debt
- 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 of any outstanding borrowings, which could adversely affect our cash position and adversely affect the availability of financing to us, which could materially impact our operations.

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

  As of December 31, 2016, we had approximately 1,600 employees located in Europe and Asia. We have workers' councils representing the employees of our France and Netherlands operations, and trade unions representing our employees in Italy and Sweden and elected employee representatives for our employees in the United Kingdom and Spain. Most of these European employees are employed in countries in which employment laws provide greater bargaining or other rights to employees than the laws of the U.S. Such employment rights require us to work collaboratively with the legal representatives of the employees to effect any changes to labor arrangements. For example, most of our employees in Europe are represented by unions or workers' councils that must approve certain changes in conditions of employment, including salaries and benefits and staff changes, and may impede efforts to restructure our workforce. Although we believe that we have a good working relationship with our employees, a strike, work stoppage or slowdown by our employees or significant dispute with our employees could result in a significant disruption of our operations or higher ongoing labor costs.

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

  The B2B computer, service solutions and electronics industry in which EMEA participates is highly price competitive and gross profit margins are narrow and variable. The Company's ability to further reduce prices in reaction to competitive pressure is limited. Additionally, gross margins and operating margins are affected by changes in factors such as vendor pricing, vendor rebate and/or price protection programs, product return rights, and product mix. Pricing pressure is prevalent in the markets we serve and we expect this to continue. We may not be able to mitigate these pricing pressures and resultant declines in sales and gross profit margin with cost reductions in other areas or expansion into new product lines. If we are unable to proportionately mitigate these conditions our operating results and financial condition may suffer.

- *We would be exposed to liability, including substantial fines and penalties and, in extreme cases, loss of our ability to accept credit cards, in the event our privacy and data security policies and procedures are inadequate to prevent security breaches of our consumer personal information and credit card information records.*

  In processing our sales orders we often collect personal information and credit card information from our customers. The Company has 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, "hack into" our systems 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 and claims alleging misrepresentation of our privacy and data security practices or other related claims. While the Company believes it conforms to appropriate Payment Card Industry ("PCI") security standards where necessary for its various businesses, any breach involving the loss of credit card information may lead to PCI related fines in the millions of dollars. In the event of a severe breach, credit card providers may prevent our accepting of credit cards. Any such liability related to the aforementioned risks could lead to reduced profitability and damage our brand(s) and/or reputation.

- *Failure to protect the integrity, security and use of our customer and employees' information could expose us to litigation and materially damage our standing with our customers.*

The use of individually identifiable consumer and employee data is regulated at the state, federal and international levels and we incur costs associated with information security – such as increased investment in technology and the costs of compliance with consumer and employee protection laws. Additionally, our internet operations and website sales depends upon the secure transmission of confidential information over public networks, including the use of cashless payments. While we have taken significant steps to protect customer, employee and confidential information, there can be no assurance that advances in computer capabilities, new discoveries in the field of cryptography, the efforts of "hackers" and cyber criminals or other developments will prevent the compromise of our customer and employee transaction processing capabilities and our customer and employee personal data. If any such compromise of our security were to occur, it could have a material adverse effect on our reputation, operating results and financial condition and could subject us to litigation.

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

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

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

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

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

From time to time, we are involved in lawsuits or other legal proceedings arising in the ordinary course of our business. These may relate to, for example, patent, trademark or other intellectual property matters, employment law matters, states sales tax claims on internet/ecommerce transactions, product liability, commercial disputes, consumer sales practices, or other matters. In addition, as a public company we could from time to time face claims relating to corporate or securities law matters. The defense and/or outcome of such lawsuits or proceedings could have a material adverse effect on our business. See "Legal Proceedings".

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

Changes in our income tax expense due to changes in the mix of U.S. and non-U.S. revenues and profitability, changes in tax rates or exposure to additional income tax liabilities could affect our profitability. We are subject to income taxes in the United States and various foreign jurisdictions. Our effective tax rate has been in the past and could be in the future adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, restrictions on utilization of tax benefits, changes in the valuation of deferred tax assets and liabilities, changes in tax laws or by material audit assessments. The carrying value of our deferred tax assets is dependent on our ability to generate future taxable income in those jurisdictions. In the case of where several years of losses occur in a jurisdiction, there is a risk that the Company would need to reserve its deferred tax assets which would likely result in a material tax expense being recorded in the period that such reserve is established. Similarly, in the case where a reserve against deferred tax assets has previously been established, successive years of profitability would require the reversal of deferred tax asset reserves which would likely result in a material tax benefit in the period that the reserve is deemed to be no longer necessary. In addition, the amount of income taxes we pay is subject to audit in our various jurisdictions and a material assessment by a tax authority could affect our profitability.

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

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

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

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

  Richard Leeds, Robert Leeds, and Bruce Leeds (each are brothers and directors and executive officers of the Company), together with trusts for the benefit of certain members of their respective families and other entities controlled by them, control approximately 68.5% of the voting power of our outstanding common stock. Due to such holdings, the Leeds brothers together with these trusts and entities are able to determine the outcome of virtually all matters submitted to stockholders for approval, including the election of directors, the appointment of management, amendment of our articles of incorporation, significant corporate transactions (such as a merger or other sale of our company or our assets), the payments of dividends on our common stock and the entering into of extraordinary transactions. Further, a s a "controlled company" under NYSE rules, the Company has elected to opt-out of certain New York Stock Exchange listing standards that, among other things, require listed companies to have a majority of independent directors on their board; the Company does however currently have an independent Audit, Compensation Committee and Corporate Governance and Nominating Committees.

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

North Americ a

As of December 31, 2016, IPG has six operational distribution centers in North America which aggregate approximately 2.0 million square feet, all of which are leased by IPG. In addition to these operational distribution centers, at December 31, 2016 we have one additional distribution center that is being marketed for sublease.

Our headquarters, administrative offices and call centers aggregate approximately 231,000 square feet within our IPG segment, all of which are leased.

In NATG there remain seven retail stores, four B2B call centers and two warehouses that are either sublet or are being marketed for sublease. These properties aggregate to approximately 1.0 million square feet.

Europe

As of December 31, 2016, we have four distribution centers in EMEA Technology which aggregate approximately 230,000 square feet. Three of these, aggregating approximately 157,000 square feet are leased; one distribution center of approximately 73,000 square feet is owned by the Company. Our administrative offices and call centers aggregate approximately 285,000 square feet, of which 208,000 square feet are leased and 77,000 square feet are owned by the Company.

Asia

As of December 31, 2016, we leased two administrative offices in Asia aggregating approximately 9,000 square feet.

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

Item 3. Legal Proceedings.

The Company and its subsidiaries are from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, customer, personal injury and health and safety law matters, as well as VAT tax disputes in European jurisdictions, and which are handled and defended in the ordinary course of business. In addition, the Company is from time to time subjected to various assertions, claims, proceedings and requests for damages and/or indemnification concerning intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells or that are incorporated in the Company's e-commerce sales channels. The Company is also audited by (or has initiated voluntary disclosure agreements with) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company is also being audited by an entity representing 43 states seeking recovery of "unclaimed property". The Company is complying with the unclaimed property audit and is providing requested information. The Company intends to vigorously defend these matters and believes it has strong defenses.

Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial position or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company regularly assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable. In this regard, the Company establishes accrual estimates for its various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At December 31, 2016 the Company has established accruals for certain of its various lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at December 31, 2016 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

Following the previously reported independent investigation of Gilbert Fiorentino and Carl Fiorentino by our Audit Committee in 2011 (in response to a whistleblower report) for a variety of improper acts, the subsequent termination of their employment and the entering into by Gilbert Fiorentino of a settlement agreement with the Securities and Exchange Commission, on November 20, 2014 the United States Attorney's Office ("USAO") for the Southern District of Florida announced that Gilbert Fiorentino and Carl Fiorentino had been charged with mail fraud, wire fraud and money laundering in connection with a scheme to defraud the Company. Specifically, the charges set forth a scheme to obtain kickbacks and other benefits, and to conceal this illicit income from the IRS, all while Gilbert Fiorentino and Carl Fiorentino were employed as senior executives at the Company's NATG business. On December 2, 2014, the United States Attorney's Office announced that Gilbert Fiorentino and Carl Fiorentino had pled guilty to various charges, and on March 3, 2015, Gilbert Fiorentino and Carl Fiorentino were sentenced to sixty and eighty months' imprisonment, respectively. Following completion of their sentences, each is to be placed on supervised release for a period of thirty-six months. On March 1, 2016, the United States District Court for the Southern District of Florida awarded the Company approximately $36 million in restitution from Gilbert and Carl Fiorentino, which the Company will utilize all available means to collect. Judgment liens have been established on certain property and assets of each of Gilbert and Carl Fiorentino. The Company is working with the USAO to obtain forfeiture proceeds from the sale of certain seized assets. During the third quarter of 2016 the Company received a partial restitution payment of approximately $1.3 million. The Company is also continuing to seek a civil judgment against Carl Fiorentino.

The Company's Audit Committee, with the assistance of independent outside counsel, cooperated with a request by the USAO that it assist the USAO's investigation into allegations arising from the Fiorentino investigation regarding possible executive officer conflicts of interest and internal controls and books and records violations. The Company's Audit Committee, along with the Audit Committee's independent outside counsel, conducted an investigation of the allegations and its counsel presented the Audit Committee's findings to the USAO in July 2015. The Company was advised that the Audit Committee investigation found no evidence of executive officer conflicts of interest, and no material evidence of internal controls violations or books and records violations. The Audit Committee considers its investigation to be closed at this time and the Company has been advised there has been no further contact from the USAO. Notwithstanding, it is not possible at this time to predict if or when the USAO will conclude its investigation; what subject(s) will be investigated; what actions, if any, may be taken by the government as a result of its investigation; or whether any of these matters will have a material adverse impact on the Company .

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

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

	High	Low
2016		
First Quarter	$ 9.55	$ 7.46
Second Quarter	9.35	7.89
Third Quarter	9.06	7.65
Fourth Quarter	9.29	7.36
2015		
First Quarter	$ 14.74	$ 10.35
Second Quarter	12.44	7.99
Third Quarter	9.18	6.73
Fourth Quarter	9.97	7.36

On December 31, 2016, the last reported sale price of our common stock on the New York Stock Exchange was $8.77 per share. As of December 31, 2016, we had 172 shareholders of record.

On October 31, 2016, the Company's Board of Directors declared a cash dividend of $0.05 per share payable on November 18, 2016 to shareholders of record on November 16, 2016.

On August 2, 2016, the Company's Board of Directors declared a cash dividend of $0.05 per share payable on August 29, 2016 to shareholders of record on August 19, 2016.

Depending in part upon profitability, the strength of our balance sheet, our cash position and the need to retain cash for the development and expansion of our business, we anticipate continuing a regular quarterly dividend in the future, subject to availability limitations under our credit facilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition, Liquidity and Capital Resources" and Note 6 of "Notes to Consolidated Financial Statements".

Information regarding securities authorized for issuance under equity compensation plans and a performance graph relating to the Company's common stock is set forth in the Company's Proxy Statement relating to the 2017 Annual Meeting of Shareholders and is incorporated by reference herein.

Item 6. Selected Financial Data.

The following selected financial information is qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this report. The selected statement of operations data, excluding discontinued operations, for fiscal years 2016, 2015 and 2014 and the selected balance sheet data as of December 2016 and 2015 are derived from the audited consolidated financial statements which are included elsewhere in this report. The selected balance sheet data as of December 2014, 2013 and 2012 and the selected statement of operations data for fiscal years 2013 and 2012 are derived from the audited consolidated financial statements of the Company which are not included in this report. The results of operations shown here have been adjusted to reflect the presentation of the NATG discontinued operations (See Note 1 of the Notes to Consolidated Financial Statements).

	Years Ended December 31, (In millions, except per share data)				
	2016	**2015**	**2014**	**2013**	**2012**
Statement of Operations Data:					
Net sales	$ 1,680.1	$ 1,854.7	$ 2,104.2	$ 1,975.4	$ 1,961.2
Gross profit	$ 324.7	$ 342.7	$ 377.2	$ 360.7	$ 354.4
Operating income (loss) from continuing operations	$ 4.1	$ (24.1)	$ (13.7)	$ (10.8)	$ 8.2
Net income (loss) from continuing operations	$ (7.9)	$ (48.3)	$ (32.0)	$ (43.0)	$ 17.8
Per Share Amounts :					
Net income (loss) — diluted	$ (0.21)	$ (1.30)	$ (0.86)	$ (1.16)	$ 0.48
Weighted average common shares — diluted	37.2	37.1	37.1	37.0	36.9
Cash dividends paid per common share	$ 0.10	$ -	$ -	$ -	$ 0.25
Balance Sheet Data:					
Working capital	$ 186.2	$ 214.2	$ 310.6	$ 345.8	$ 360.8
Total assets	$ 566.1	$ 710.1	$ 896.9	$ 942.2	$ 962.3
Shareholders' equity	$ 214.4	$ 253.9	$ 359.6	$ 406.2	$ 446.3

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. The Company currently operates and is internally managed in two reportable segments - Industrial Products Group ("IPG") and EMEA Technology Products Group ("EMEA"). Smaller business operations and corporate functions are aggregated and reported as an additional segment – Corporate and Other ("Corporate"). As previously disclosed in December 2015, the Company sold certain assets and liabilities of its North American Technology Group ("NATG") business and at that time began the wind-down of the remaining business. This wind-down is substantially completed although the Company has continued with collecting accounts receivable, settling accounts payable, marketing remaining leased facilities, as well as, settling remaining lease obligations and other contingencies during the current year. Additionally, in September 2016 the Company sold its Misco Germany business and in December 2016 sold its rebate processing business.

The Company followed the guidance under Accounting Standards Update ("ASU") 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which requires disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU 2014-08 in order for a disposal to qualify for discontinued operations presentation in the financial statements the disposal must be a "major strategic shift" for the reporting entity. If the entity meets this new threshold only the components that were in operation at the time of disposal will be presented as discontinued operations. In the Company's case, the sale of the NATG business in December 2015 met the major strategic shift criteria. As a result the B2B and Ecommerce business and the three remaining retail stores in operation at the time of the sale are presented as discontinued operations in the accompanying financial statements. The 31 retail stores and warehouse which were closed in 2015 prior to the sale, along with allocations of common distribution and back office costs, are presented as part of the Company's continuing operations for all periods; other NATG operations that were discontinued by the Company in previous periods are also presented as continued operations for all periods.

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

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

Industrial Products

Our Industrial Products segment sells a wide array of MRO products which are marketed in North America. Most of these products are manufactured by other companies; however, the Company does offer a selection of products that are manufactured for our own design and marketed under the trademarks *Global*™ , *GlobalIndustrial.com*™ and *Nexel*™ *Relius*™*, Paramount*™ *and Interion*™*.* Industrial products accounted for 43%, 38% and 26% of our GAAP net sales from continuing operations in 2016, 2015 and 2014, respectively. In both of these product groups, we offer our customers a broad selection of products, prompt order fulfillment and extensive customer service.

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

EMEA Technology Products Group

Our EMEA sells ICT and CE products. These products are marketed in Europe. All of these products are manufactured by other companies. EMEA Technology products accounted for 57% of our GAAP net sales from continuing operations in 2016, 2015 and 2014.

On September 2, 2016 the Company sold certain assets of its Misco Germany operations which had been reported as part of its EMEA segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08 , prior and current year results of the German operations are presented within continuing operations in the consolidated financial statements. For the year ended December 31, 2016, net sales of Misco Germany included in continuing operations were $33.9 million and the net loss, including approximately $3.7 million of intercompany charges, was $6.4 million.

On June 12, 2014, the Company acquired Misco Solutions (f/k/a SCC Services B.V.), a supplier of business-to-business IT products and services with operations in the Netherlands. This acquisition expanded the Company's business in the Netherlands.

Corporate and other

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

NATG Technology Products Group

As discussed above, the Company sold certain B2B assets of NATG in December 2015 and substantially completed wind-down activities in 2016. The NATG segment sold primarily ICT and CE products. These products were marketed in the United States, Canada and Puerto Rico. Most of these products were manufactured by other companies; however the Company did offer a selection of products that were manufactured to our own designs and marketed on a private label basis. NATG sales included in continuing operations accounted for 0%, 5% and 17% of our GAAP net sales from continuing operations in 2016, 2015 and 2014, respectively **.**

Discontinued Operations

As discussed above, the B2B and Ecommerce business and the three remaining retail stores in operation at the time of the sale are presented as discontinued operations in the accompanying consolidated financial statements. Total GAAP net sales for the discontinued operations were $11.8 million, $1.0 billion and $1.3 billion for the years ended 2016, 2015 and 2014, respectively. See Note 2 and 13 to the consolidated financial statements included in Item 15 of this Form 10-K for additional financial information about our business segments as well as information about our geographic operations.

Operating Conditions

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

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

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

Critical Accounting Policies and Estimates

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

Accounting policy	Assumptions and uncertainties	Quantification and analysis of effect on actual results if estimates differ materially
Revenue Recognition. We recognize product sales when persuasive evidence of an order arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured. Generally, these criteria are met at the time of receipt by customers when title and risk of loss both are transferred, except in our IPG segment where title and risk pass at time of shipment. Sales are presented net of returns and allowances, rebates and sales incentives. Reserves for estimated returns and allowances are provided when sales are recorded, based on historical experience and current trends.	Our revenue recognition policy contains assumptions and judgments made by management related to the timing and amounts of future sales returns. Sales returns are estimated based upon historical experience and current known trends.	We have not made any material changes to our sales return reserve policy in the past three years and we do not anticipate making any material changes to this policy in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment.
Allowance for Doubtful Accounts Receivable . We record an allowance for doubtful accounts to reflect our estimate of the collectability of our trade accounts receivable. While bad debt allowances have been within expectations and the provisions established, there can be no guarantee that we will continue to experience the same allowance rate we have in the past.	Our allowance for doubtful accounts policy contains assumptions and judgments made by management related to collectability of aged accounts receivable and chargebacks from credit card sales. We evaluate the collectability of accounts receivable based on a combination of factors, including an analysis of the age of customer accounts and our historical experience with accounts receivable write-offs. The analysis also includes the financial condition of a specific customer or industry, and general economic conditions. In circumstances where we are aware of customer credit card charge-backs or a specific customer's inability to meet its financial obligations, a specific reserve for bad debts applicable to amounts due to reduce the net recognized receivable to the amount management reasonably believes will be collected is recorded. In those situations with ongoing discussions, the amount of bad debt recognized is based on the status of the discussions.	We have not made any material changes to our allowance for doubtful accounts receivable reserve policy in the past three years and we do not anticipate making any material changes to this policy in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment. A change of 10% in our allowance for doubtful accounts reserve at December 31, 2016 would impact net income by approximately $1.1 million.

Inventory valuation . We value our inventories at the lower of cost or market; cost being determined on the first-in, first-out method except in certain locations 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.	Our inventory reserve policy contains assumptions and judgments made by management related to inventory aging, obsolescence, credits that we may obtain for returned merchandise, shrink and consumer demand.	We have not made any material changes to our inventory reserve policy in the past three years and we do not anticipate making any material changes to this policy in the future. However if our estimates are materially different than our actual experience we could have a material loss adjustment. A change of 10% in our inventory reserves at December 31, 2016 would impact net income by approximately $0.2 million.
Goodwill and Intangible Assets. We apply the provisions of relevant accounting guidance in our valuation of goodwill, trademarks, domain names, client lists and other intangible assets. Relevant accounting guidance requires that goodwill and indefinite lived intangibles be reviewed at least annually for impairment or more frequently if indicators of impairment exist. The amount of an impairment loss would be recognized as the excess of the asset's carrying value over its fair value.	Our impairment testing involves judgments and uncertainties, quantitative and qualitative, related to the use of discounted cash flow models and forecasts of future results, both of which involve significant judgment and may not be reliable. Significant management judgment is necessary to evaluate the operating environment and economic conditions that exist to develop a forecast for a reporting unit. Assumptions related to the discounted cash flow models we use include the inputs used to determine the Company's weighted average cost of capital including a market risk premium, the beta of a reporting unit, reporting unit specific risk premiums and terminal growth values. Critical assumptions related to the forecast inputs used in our discounted cash flow models include projected sales growth, same store sales growth, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and growth in selling, general and administrative expense. We also use our Company's market capitalization and comparable company market data to validate our reporting unit valuations.	We have not made any material changes to our goodwill policy in the past three years and we do not anticipate making any material changes to this policy in the future. In the fourth quarter of 2016, the Company conducted an evaluation of the goodwill of its United Kingdom operation in the EMEA segment and goodwill and certain intangible assets of its Mexico operation in its IPG segment and concluded that they were impaired and a charge of $0.3 million and $0.1 million, pre-tax, respectively, was recorded. We have approximately in aggregate $17.3 million in goodwill and intangible assets at December 31, 2016. We do not believe it is reasonably likely that the estimates or assumptions used to determine whether any of our remaining goodwill or intangible assets are impaired will change materially in the future. However if the inputs used in our discounted cash flow models or our forecasts are materially different than actual experience we could incur impairment charges that are material.

Long-lived Assets. Management exercises judgment in evaluating our long-lived assets for impairment and in their depreciation and amortization methods and lives including evaluating undiscounted cash flows.	The impairment analysis for long lived assets requires management to make judgments about useful lives and to estimate fair values of long lived assets. It may also require us to estimate future cash flows of related assets using discounted cash flow model. Our estimates of future cash flows involve assumptions concerning future operating performance and economic conditions. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations.	We have not made any material changes to our long lived assets policy in the past three years and we do not anticipate making any material changes to this policy in the future. In 2016 the Company conducted an evaluation of the long-lived assets in its United Kingdom operations within the EMEA segment and concluded that an impairment charge of $1.7 million, be recorded. In 2015 the Company conducted an evaluation of the long-lived assets in its EMEA and now discontinued NATG segment and concluded that an impairment charge of $0.7 million each, be recorded. We do not believe it is reasonably likely that the estimates and assumptions used to determine long lived asset impairment will vary materially in the future. However if our estimates are materially different than our actual experience we could have a material gain or loss adjustment. A change of 10% in the carrying value of our long lived assets would impact net income by approximately $3.0 million.
Vendor Accruals. Our contractual agreements with certain suppliers provide us with funding or allowances for costs such as price protection, markdowns and advertising as well as funds or allowances for purchasing volumes. Generally, allowances received as a reimbursement of identifiable costs are recorded as an expense reduction when the cost is incurred. Sales related allowances are generally determined by our level of purchases of product and are deferred and recorded as a reduction of inventory carrying value and are ultimately included as a reduction of cost of goods when inventory is sold.	Management makes assumptions and exercises judgment in estimating period end funding and allowances earned under our various agreements. Estimates are developed based on the terms of our vendor agreements and using existing expenditures for which funding is available, determining products whose market price would indicate coverage for markdown or price protection is available and estimating the level of our performance under agreements that provide funds or allowances for purchasing volumes. Estimates of funding or allowances for purchasing volume will include projections of annual purchases which are developed using current actual purchase data and historical purchase trends. Accruals in interim periods could be materially different if actual purchase volumes differ from projections.	We have not made any material changes to our vendor accrual policy in the past three years nor do we anticipate making any material changes to this policy in the future. If actual results are different from the projections used we could have a material gain or loss adjustment. A change of 10% in our vendor accruals at December 31, 2016 would impact net income by approximately $0.6 million.

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

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

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

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

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

In 2015 the Company recorded non-cash valuation allowances against the deferred tax assets of certain of its subsidiaries in Europe and Canada in the amount of approximately $0.8 million.

In 2016 the Company recorded non-cash valuation allowances against the deferred tax assets of a subsidiary in Europe in the amount of approximately $0.7 million.

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

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

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

The Company recorded special charges of $5.9 million, $27.9 million and $15.9 million in continuing operations related to reorganization, restructuring and asset impairment and other charges for the years ended 2016, 2015 and 2014, respectively.

Recently Adopted and Newly Issued Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* , to clarify the principles of recognizing revenue and create common revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. Following the FASB’s finalization of a one year deferral of this standard, the ASU is now effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2016. This ASU can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of the adoption. The standard supersedes existing revenue recognition guidance and replaces it with a five step revenue model with a core principle that an entity recognizes revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies the implementation guidance on principal versus agent considerations.

The Company intends to adopt the new guidance on January 1, 2018, with a cumulative effect adjustment to opening retained earnings under the modified retrospective approach. Currently, the Company recognizes revenue when title passes to customers. The Company’s implementation of this ASU includes the evaluation of its customer agreements to identify terms or conditions that could be considered a performance obligation such that, if material to the terms of the contract, consideration would be allocated to the performance obligation and could accelerate or defer the timing of recognizing revenue. The Company also continues to evaluate the presentation of its principal versus agent arrangements.

The Company’s evaluation of the new guidance is not yet complete; however, based on the nature of the Company’s primary revenue sources and current policies, the Company does not expect a significant change in the timing and presentation of recognizing its revenue.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Inventory* - *Simplifying the Measurement of Inventory* (Topic 330) ("ASU No. 2015-11"). ASU No. 2015-11 requires an entity to measure inventory within the scope of the update at the lower of cost and net realizable value, and defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Effective January 1, 2016, the company adopted the provisions of ASU No. 2015-11 on a prospective basis. The adoption of the provisions of ASU No. 2015-11 did not materially impact the company's consolidated financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern* . This guidance addresses management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management’s evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016. Early adoption is permitted. The Company adopted this guidance in the fourth quarter of 2016 and based on the management assessment, there are no conditions and events that raise substantial doubt about the Company’s ability to continue as a going concern. As a result, the adoption of this standard had no impact on the Company’s consolidated financial statements and disclosures.

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

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* , which modifies certain accounting aspects for share-based payments to employees including, among other elements, the accounting for income taxes and forfeitures, as well as classifications in the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new guidance will be effective for the Company starting in the first quarter of fiscal 2017. Early adoption is permitted in any annual or interim period. The company does not expect the adoption of ASU No. 2016-19 to materially impact the Company's consolidated financial position or result of operations.

Highlights from 2016

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

- IPG sales grew 2.4% to $715.6 million. On a constant currency basis and excluding the January 2015 acquisition of Plant Equipment Group (P.E.G.), average daily sales grew 2.8%.
- EMEA sales decreased 8.7% to $960.9 million. On a constant currency basis average daily sales decreased 4.3%.
- Consolidated operating income was $4.1 million compared to a loss of $24.1 million in the prior year.

GAAP Results of Operations

Key Performance Indicators* (in millions):

	Years Ended December 31,				
	2016	2015	2014	% Change 2016/2015	% Change 2015/2014
Net sales of continuing operations by segment:					
IPG	$ 715.6	$ 698.6	$ 556.0	2.4%	25.6%
EMEA	960.9	1,052.9	1,189.9	(8.7)%	(11.5)%
Corporate and Other	3.6	5.4	5.9	(33.3)%	(8.5)%
NATG- continuing operations	-	97.8	352.4	(100.0)%	(72.2)%
Consolidated net sales	$ 1,680.1	$ 1,854.7	$ 2,104.2	(9.4)%	(11.9)%
Consolidated gross profit	$ 324.7	$ 342.7	$ 377.2	(5.3)%	(9.1)%
Consolidated gross margin	19.3%	18.5%	17.9%	0.8%	0.6%
Consolidated SG&A costs**	$ 320.6	$ 366.8	$ 390.9	(12.6)%	(6.2)%
*Consolidated SG&A costs** as % of sales*	19.1%	19.8%	18.6%	(0.7)%	1.2%
Operating income (loss) from continuing operations by segment :					
IPG	$ 34.3	$ 43.7	$ 41.0	(21.5)%	6.6%
EMEA	(12.5)	(10.8)	(21.2)	(15.7)%	49.1%
Corporate and Other	(14.9)	(18.8)	(15.6)	20.7%	(20.5)%
NATG – continuing operations	(2.8)	(38.2)	(17.9)	92.7%	(113.4)%
Consolidated operating income (loss)	$ 4.1	$ (24.1)	$ (13.7)	117.0%	(75.9)%
Operating margin from continuing operations by segment :**					
IPG	4.8%	6.3%	7.4%	(1.5)%	(1.1)%
EMEA	(1.3)%	(1.0)%	(1.8)%	(0.3)%	0.8%
NATG	-	(39.1)%	(5.1)%	100%	(34.0)%
Consolidated operating margin from continuing operations	0.2%	(1.3)%	(0.7)%	1.5%	(0.6)%
Effective income tax rate	NM	38.8%	59.2%	-	(20.4)%
Net income (loss) from continuing operations	$ (7.9)	$ (48.3)	$ (32.0)	83.6%	(50.9)%
Net margin from continuing operations	*(0.5)%*	*(2.6)%*	*(1.5)%*	*2.1%*	*(1.1)%*
Net income (loss) from discontinued operations	$ (24.7)	$ (51.5)	$ (5.5)	52.0%	836.4%
Net margin from discontinuing operations	*(1.5)%*	*(2.8)%*	*(0.3)%*	1.3%	*(2.5)%*

*excludes discontinued operations (See Note 3 of Notes to Consolidated Financial Statements).
** includes special charges, net (See Note 8 of Notes to Consolidated Financial Statements).
NM=not meaningful

Non-GAAP Results of Operations

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

Industrial Products Group

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Sales	$ 715.6	$ 698.6	$ 556.0	2.4%	25.6%
Average daily sales*	$ 2.8	$ 2.7	**	2.8%	**
Gross profit	$ 198.3	$ 198.7	$ 163.4	(0.2)%	21.6%
Gross margin	27.7%	28.4%	29.4%		
Operating income	$ 35.2	$ 44.0	$ 43.0	(20.0)%	2.3%
Operating margin	4.9%	6.3%	7.7%		

European Technology Products Group

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Sales	$ 927.0	$ 993.9	$ 1,122.8	(6.7)%	(11.5)%
Average daily sales***	$ 3.8	$ 3.9	**	(2.1)%	**
Gross profit	$ 121.5	$ 125.5	$ 148.3	(3.2)%	(15.4)%
Gross margin	13.1%	12.6%	13.2%		
Operating loss	$ (5.2)	$ (6.3)	$ (1.4)	17.5%	(350.0)%
Operating margin	(0.6)%	(0.6)%	(0.1)%		

Corporate & Other

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Operating loss	$ (15.5)	$ (18.1)	$ (14.3)	14.4%	(26.6)%

Consolidated

	Year Ended December 31,			% Change	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
Sales	$ 1,642.6	$ 1,692.5	$ 1,678.8	(2.9)%	0.8%
Gross profit	$ 319.8	$ 324.2	$ 311.7	(1.4)%	4.0%
Gross margin	19.5%	19.2%	18.6%		
Operating income	$ 14.5	$ 19.6	$ 27.3	(26.0)%	(28.2)%
Operating margin	0.9%	1.2%	1.6%		

*Percentages are calculated using constant currency sales data in hundreds of thousands.

**Average sales data was not tracked in 2014.

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

[1] *On December 1, 2015 the Company closed on the sale of certain assets of its North American Technology Group ("NATG"). Pursuant to this transaction, the Company is winding down the remaining operations of NATG during 2016 and continuing into 2017. In the GAAP presentation, the retail operations which were discontinued by the Company prior to the transaction, along with allocations of common distribution and back office costs, are presented as part of the Company's continuing operations for all periods; other NATG operations that were sold (as well as the remaining retail operations that existed at the time of the transaction (and were subsequently discontinued by the Company) are presented as discontinued operations for all periods. The non-GAAP results reflect the entire NATG segment as a discontinued operation for all periods presented as well as adjustments for non-recurring items, intangible amortization, equity compensation and a normalized effective tax rate in recurring operations. On September 2, 2016 the Company closed on the sale of certain assets of its Misco Germany operation which has been reported as part of its European Technology Products Group. Prior and current year results of Germany have been eliminated in the non-GAAP presentation. On December 31, 2016 the Company closed on the sales of its Afligo rebate processing business. Prior and current year results of the rebate processing business, along with the associated gain on the sale, have been eliminated in the non-GAAP presentation. The Company believes that the non-GAAP presentation conveys additional more meaningful information to investor as it depicts the operations that are currently generating sales and that will continue to do so in future periods exclusive of wind down costs of its former NATG operations. See accompanying GAAP reconciliation tables.*

SYSTEMAX INC.
Reconciliation of Segment GAAP Operating Income (Loss) from Continuing Operations to Non-GAAP Operating Income (Loss) from Continuing Operations - Unaudited
(In millions)

	Year Ended December 31,		
	2016	**2015**	**2014**
Industrial Products	$ 34.3	$ 43.7	$ 41.0
Technology Products - Europe	(12.5)	(10.8)	(21.2)
Technology Products - NA	(2.8)	(38.2)	(17.9)
Corporate and Other	(14.9)	(18.8)	(15.6)
GAAP operating income (loss)	**4.1**	**(24.1)**	**(13.7)**
Non-GAAP adjustments:			
Industrial Products:			
Integration costs	0.0	1.0	0.4
Intangible asset amortization	0.5	0.3	0.0
Stock-based and other special compensation	0.4	(1.0)	1.6
Total Non-GAAP Adjustments – Industrial Products	0.9	0.3	2.0
Technology Products - Europe:			
Reverse results of Germany operations	4.7	3.0	10.7
Severance and other reorganization related charges	0.0	0.7	8.0
Asset impairment charges	2.0	0.4	0.0
Stock based compensation	0.1	0.1	0.3
Intangible asset amortization	0.5	0.3	0.8
Total Non-GAAP Adjustments: Technology Products Europe	7.3	4.5	19.8
Technology Products - NA:			
Reverse results of NATG included in GAAP continuing operations	2.8	38.2	17.9
Total Non-GAAP Adjustments : Technology Products NA	2.8	38.2	17.9
Corporate and Other:			
Gain on sale of Afligo	(3.9)	0.0	0.0
Reverse results of Afligo included in GAAP continuing operations	2.2	0.1	0.4
Severance and other reorganization related charges	0.0	0.0	0.1
Stock based compensation	1.1	0.6	0.8
Total Non-GAAP Adjustments: Corporate and Other	(0.6)	0.7	1.3
Industrial Products	35.2	44.0	43.0
Technology Products - Europe	(5.2)	(6.3)	(1.4)
Technology Products - NA	0.0	0.0	0.0
Corporate and Other	(15.5)	(18.1)	(14.3)
Non-GAAP operating income	**$ 14.5**	**$ 19.6**	**$ 27.3**

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

NET SALES

SEGMENTS:

The IPG segment net sales benefited in 2016 from continued growth across their U.S. core business categories including material handling, HVAC and furniture. IPG U.S. revenue was up 3.3% for the year while Canada sales were down approximately 10.3% on a constant currency basis. Increased sales headcount in various customer facing roles as well as increased e-commerce revenue contributed to the increased sales. On a constant currency basis and excluding the January 2015 P.E.G. acquisition, sales increased by 1.6% for the year and average daily sales grew 2.8%.

The IPG segment net sales increase in 2015 was attributable to continued growth across most product lines and incremental sales from the P.E.G. acquisition, which contributed $89.1 million in sales and approximately $1.1 million of pretax earnings during 2015, as well as investment in hiring sales personnel and subject matter experts who bring specific technical knowledge to our customers. On a constant currency basis, and excluding P.E.G., net sales increased 10.1% during 2015.

The EMEA segment net sales decrease in 2016 is attributable primarily to the United Kingdom market, where the operations remain challenged, including the impact of Brexit related market pressures and net sales declines in our other markets due to highly competitive market participants, as well as the exit of our German operations. Offsetting the net sales decrease is our France and Netherlands businesses, each generating strong revenue growth with Netherlands benefiting from increased public sector business and France's continued growth in its core businesses. Both operations successfully were awarded and fulfilled many large tenders for Government and Education in the year. On a constant currency basis, net sales decreased 5.5% for 2016 and average daily sales decreased 4.3%.

The EMEA segment net sales decrease in 2015 is attributable to unfavorable currency movements and a challenging market in the United Kingdom which more than offset the performance in other markets. Our France operations continued its strong performance (local currency increase of 19.1%), benefiting from continued growth in its core businesses. On a constant currency basis and excluding Misco Solutions, EMEA segment net sales decreased 1.9% for 2015.

The Corporate and Other segment net sales decrease in 2016 and 2015 is attributable to the decrease in rebate processing business which was impacted by the exit from our NATG operations for 2015.

Sales in NATG continuing operations represent the sales of the retail stores closed during the first half of 2015. NATG discontinued operations net sales totaled $11.8 million, $1.0 billion and $1.3 billion for 2016, 2015 and 2014, respectively. Sales for 2014 represent full year sales of retail stores closed in 2015 and sales of stores closed during 2014.

GROSS MARGIN

Gross margin is dependent on variables such as product mix, vendor price protection and other sales incentives, competition, pricing strategy, cooperative advertising funds classified as a reduction to cost of sales, free freight and freight discounting arrangements and other variables, any or all of which may result in fluctuations in gross margin. Further, gross margin also includes the costs of purchasing and logistics in our distribution center operations.

The IPG segment gross margin declined in 2016 compared to prior year reflecting flat product margins, decreased freight margins and increased warehouse staffing cost due to incremental temporary labor to ensure our customer service levels are maintained during the transition to our new warehouse management and distribution system, which is anticipated to be completed in the first quarter of 2017. Lower gross margin in 2016 is further inclusive of $1.7 million of inventory adjustments discovered during the transition of our warehouse management system in one of our distribution centers in second quarter of 2016.

The IPG segment gross margin was also negatively impacted by increased distribution costs associated with the opening of a new distribution center in the third quarter of 2015 and reduced freight margins. We anticipate that this new facility will result in improved gross margins from freight cost reductions to west coast customers and improved efficiency at the other distribution centers. Product margin improved marginally, driven by growth of certain higher margin categories, and our private label offering.

The EMEA segment gross margin increase in 2016 is primarily the result of changes in the sales mix with the higher margin France business comprising a larger portion of total gross profit for the year compared to prior year.

The EMEA segment gross margin decline in 2015 was related to reduced selling margins driven by customer shifts from commercial to public sector accounts and lower freight margins.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("SG&A"), EXCLUDING SPECIAL CHARGES

Consolidated selling, general and administrative expenses totaled $314.7 million, $338.9 million and $375.0 million for the years ended December 31, 2016, 2015 and 2014, respectively.

The IPG segment incurred increased costs of approximately $10.0 million in 2016 compared to 2015. Significant expense increases included approximately $4.6 million of increased salary and related costs of which $0.6 million related to the cost reduction strategies implemented in the second quarter of 2016, investments in the sales force, increased IT costs of approximately $2.9 million and increased net internet advertising spending of approximately $1.9 million as it continues to expand its online product offerings and its e-commerce presence. Included in the IPG segment's SG&A expenses is 12 months of P.E.G. costs compared to 11 months in the prior year.

The IPG segment incurred increased costs of approximately $29.9 million in 2015 compared to 2014 including costs incurred by P.E.G. since the date of acquisition. Significant expense increases included approximately $14.1 million in increased salary and related costs of additional sales headcount, of which $11.3 million related to P.E.G. costs. IPG also recorded increased net internet advertising spending of approximately $10.3 million, of which $5.8 million related to P.E.G. costs, as it continued to expand its online product offerings and its ecommerce presence, and increased rent and related expenses of $1.2 million related to the P.E.G. acquisition during 2015.

The EMEA segment incurred lower SG&A costs of approximately $6.3 million for the year 2016 compared to 2015 primarily due to the impact of exchange rate changes on salary and payroll related costs of approximately $7.9 million, which includes the change in salary and payroll costs from the sale of the German operations in the third quarter of 2016 of approximately $1.0 million, offset by increased net advertising costs of approximately $0.9 million and approximately $1.6 million reserve related to an outstanding VAT dispute.

In 2015, the EMEA segment incurred lower salary and related costs of approximately $16.7 million due to the consolidation of positions from country locations to the European shared services center. EMEA also had decreased net internet advertising spending of approximately $0.9 million and decreased rent and related expenses of $1.1 million.

The Corporate and other segment SG&A costs decreased by approximately $6.0 million primarily attributable to the gain on the sale of the rebate processing business of $3.9 million, lower salary and related costs of approximately $1.9 million, savings within professional fees of approximately $0.9 million offset by increased IT costs of approximately $1.2 million.

Corporate and other segment incurred increased costs of approximately $3.3 million for 2015. The increase is primarily attributable to increased overhead expenses primarily as a result of increased personnel costs.

NATG continuing operations SG&A expense for 2015 totaled approximately $23.1 million compared to $70.6 million in 2014. NATG continuing operations SG&A expense is primarily payroll costs, credit card fees, rent and utilities. Lower costs in 2015 are the result the closure of 31 retail stores and a warehouse in 2015. Lower costs in 2014 are associated with the closure of 2 retail stores in 2014 and 5 stores in 2013.

NATG discontinued operations SG&A expense totaled $14.0 million, $109.9 million and $119.7 million for each of 2016, 2015 and 2014, respectively.

SPECIAL CHARGES, NET

The Company incurred special charges for the year ended December 31, 2016 of $15.4 million within the EMEA and NATG segments, of which $5.9 million is included in continuing operations and $9.5 million is included in discontinued operations.

The Company's EMEA segment incurred special charges during the year of approximately $3.7 million, $2.0 million related to impairment charges related to goodwill and long-lived assets in its United Kingdom operations and $1.7 million related to the sale of certain assets of its German business, including customer relationships and the employees of its Misco Germany branch. The Germany operations charges incurred included approximately $1.0 million for lease termination costs (includes $0.3 million benefit related to previous rent accruals), $0.6 million for professional fees related to the sale and approximately $0.1 million for write off of inventory and fixed assets. Amounts related to the sale that are unpaid at December 31, 2016 are recorded in Accrued expenses and other current liabilities and Other liabilities in the accompanying consolidated balance sheets. Additional costs may be incurred for changes in estimates related to the collection of remaining accounts receivable.

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

NATG also incurred approximately $1.3 million of professional costs, related to the ongoing restitution proceedings against certain former NATG executives and professional costs related to the investigation conducted at the request of the US Attorney for the Southern District of Florida. These charges were offset by approximately $1.3 million received as a partial payment related to the investigation, settlement, prosecution, and restitution proceedings related to the former NATG executives, $1.1 million benefit related to the settlement of vendor obligations, $0.5 million received from auction proceeds from the sale of fixed assets and approximately $0.4 million received when the buyer of NATG. exercised its option to acquire the consumer customer lists and related information of the NATG business. Amounts related to the discontinued NATG business that are unpaid at December 31, 2016 are recorded in Accrued expenses and other current liabilities and Other liabilities in the accompanying consolidated balance sheets. The Company expects that total additional NATG wind-down costs will be between $1.0 million and $5.0 million, which will be presented in discontinued operations. Additional costs may be incurred for outstanding leased facilities as they are settled or sublet and any changes in estimates related to the collection of remaining accounts receivable.

The Company incurred special charges of approximately $27.9 million in continuing operations in 2015. These charges included approximately $25.6 million attributable to the NATG segment for severances and lease termination costs related to the closing of 31 retail stores and a warehouse during 2015. Other charges incurred in 2015 include costs for additional legal and professional fees related to the previously disclosed investigation and settlement with former officers and employees and long-lived asset impairment charges.

Special charges included in NATG discontinued operations in 2015 totaled approximately $1.6 million.

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

EMEA incurred special charges of approximately $1.3 million in 2015. These charges included $0.7 million related to the previously disclosed exit of the Chief Executive of the EMEA Technology operations and an impairment charge of $0.7 million related to the long-lived assets in Germany, Italy, Spain and Sweden operations. The impairment charge resulted from negative cash flows in 2015 and a forecast for continued cash use in these entities. A favorable severance accrual adjustment of $0.1 million was also recorded in 2015.

The Company incurred special charges of approximately $15.9 million in continuing operations in 2014. The NATG segment charges included approximately $3.5 million related to the final sale of the exited PC manufacturing business, changes in the estimate of lease valuation accruals and the buyout of the two retail store leases that were exited in 2013 prior to lease expiration and charges for additional legal and professional fees related to the previously disclosed investigation and settlement with former officers and employees. In addition, as a result of negative cash flows in its operations in the United States and Canada in 2014 and a forecast for continued cash use, the Company conducted an evaluation of the long-lived and intangible assets in those operations and concluded that those assets were impaired. Consequently an impairment charge was recorded.

In EMEA, the Company incurred special charges in 2014 related to the restructure of certain small market operations in 2014. These charges, estimates of which were previously disclosed, included approximately $11.7 million in estimated workforce reductions related to the restructuring of our European operations and $0.5 million in continued recruitment costs to staff the European shared services center.

Corporate and other segment incurred $0.1 million of special charges related to severance costs in 2014.

Special charges included in NATG discontinued operations totaled approximately $8.5 million in 2014.

OPERATING MARGIN

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

The decline in IPG operating margin in 2015 was primarily attributable to reduced freight margins and increased distribution costs associated with the opening of a new distribution center in the third quarter of 2015 . The Company anticipates that this new facility will result in improved profitability from freight cost reductions to west coast customers and improved efficiency at the other distribution centers.

The EMEA operating margin decline for the year ended December 31, 2016 is primarily the result of the changes in the sales mix, aggressive pricing in the United Kingdom, along with operating margin declines in a number of our smaller markets, approximately $1.1 million charge related to a contractual dispute accrual, increased IT costs offset by the impact of exchange rate changes on salary and related costs, lower telephone, travel and related expenses and higher margins in the France and Netherlands business.

The decline in operating margin in EMEA Technology Products segment for 2015 was primarily related to reduced selling margins in Europe, particularly in the United Kingdom, increased expenses in Europe resulting from a temporary duplication of local functions and other redundancies as we completed the transition of functions from each country to the European shared services center and special charges related to the exit from the consumer and retail business partially offset by lower SG&A expenses in North America.

The decline in NATG operating margin from continuing operations for 2015 compared to 2014 reflects the reduced selling prices in connection with the liquidation pricing strategy in the retail stores exited.

Consolidated operating margin was impacted by special charges of $5.9 million, $27.9 million and $15.9 million in 2016, 2015 and 2014, respectively.

INTEREST AND OTHER INCOME, NET

Included in interest and other income, net is interest expense of $0.8 million, $1.0 million and $1.0 million in 2016, 2015 and 2014, respectively.

INCOME TAXES

The Company's tax expense is presented in both continuing and discontinued operations in 2015 and 2014. Tax expense included in continuing operations was approximately $10.0 million in 2016 compared to $13.5 million in 2015. Tax expense was driven primarily by tax expense in EMEA, Canada, Puerto Rico and certain U.S. states in both 2016 and 2015. The decrease in tax expense in 2016 is primarily attributable to lower tax expense in the U.S. and EMEA.

Tax expense included in continuing operations was approximately $13.5 million in 2015 versus $11.9 million in 2014. Tax expense in 2015 was driven primarily by tax expense in EMEA, Canada, Puerto Rico and certain U.S. states in both 2015 and 2014. The increase in tax expense in 2015 is primarily attributable to higher taxable income in EMEA in 2015.

Financial Condition, Liquidity and Capital Resources

Selected liquidity data (in millions):

	December 31, 2016	December 31, 2015	$ Change
Cash	$ 149.7	$ 215.1	$ (65.4)
Accounts receivable, net	$ 214.5	$ 266.3	$ (51.8)
Inventories	$ 140.7	$ 144.4	$ (3.7)
Prepaid expenses and other current assets	$ 6.3	$ 14.5	$ (8.2)
Accounts payable	$ 260.4	$ 346.5	$ (86.1)
Accrued expenses and other current liabilities	$ 64.5	$ 79.0	$ (14.5)
Working capital	$ 186.2	$ 214.2	$ (28.0)

Our primary liquidity needs are to support working capital requirements in our business, including working capital for winding down of our NATG operations, implementing new inventory and warehouse functions in North America, funding capital expenditures, continuing investment in upgrading and expanding our technological capabilities and information technology infrastructure, repaying outstanding debt, and funding acquisitions. We rely principally upon operating cash flows to meet these needs. We believe that cash flow available from operations and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for the next twelve months. We believe our current capital structure and cash resources are adequate for our internal growth initiatives. To the extent our growth initiatives expand, including major acquisitions, we would seek to raise additional capital. We believe that, if needed, we can access public or private funding alternatives to raise additional capital.

Our working capital decreased due to cash used for the NATG wind-down and the net loss incurred in 2016. Accounts receivable days outstanding were at 49.6 in 2016 up from 38.1 in 2015. This trend reflects a higher proportion of our sales coming from B2B channels, where most customers do business with us on open credit account, and a lower proportion of our sales being B2C channels, where most customers purchase from us using credit cards. Inventory turns were 10.5 in 2016 compared to 11.3 in 2015 and accounts payable days outstanding were 70.2 in 2016 compared to 53.4 in 2015. We expect that future accounts receivable, inventory and accounts payable balances will fluctuate with net sales and the mix of our net sales between consumer and business customers.

Net cash used in operating activities from continuing operations was $33.3 million resulting from changes in our working capital accounts, which used $41.6 million in cash compared to $158.7 million provided in 2015, primarily the result of the payment of accounts payable and accrued expenses and other current liabilities and fluctuation in our accounts receivable balances. Cash generated from net income (loss) adjusted by other non-cash items provided $8.3 million compared to $23.1 million used by these items in 2015, primarily related to the net loss from operations, the gain on the sale of the Company's rebate processing business and the fluctuation in depreciation and amortization expense, asset impairment charges and other non-cash benefit recognized from the assignment of certain NATG debt in the related sale. Net cash provided by operating activities from continuing operations was $135.6 million in 2015 compared to $0.8 million during 2014, primarily the result of the liquidation of inventories at our retail stores and fluctuation in our accounts receivable and accounts payable balances. Cash generated from net income (loss) adjusted by other non-cash items used $23.1 million in 2015 compared to $0.9 million provided in 2014, primarily the result of increased losses and fluctuations in depreciation and amortization charges, asset impairment charges and the utilization of net operating loss carryforwards from our France operations. Net cash used in operating activities from discontinued operations was $24.1 million, $49.1 million and $0.9 million for 2016, 2015 and 2014 respectively .

Net cash used in investing activities totaled $2.7 million, $34.7 million and $12.5 million for 2016, 2015 and 2014, respectively. In 2016 investing activities included information and communication systems hardware and software, leasehold improvements and lift trucks for inventory and warehousing functions for IPG segment, leasehold improvements for office space at one of our EMEA locations and a new conveyor system for inventory and warehousing functions at one of our EMEA locations. The acquisition of P.E.G. in 2015 used $24.8 million, net of cash acquired of $1.1 million and in 2014, $6.4 million was used for the Misco Solutions acquisition, net of cash acquired of $0.9 million along with $0.9 million of proceeds from the sale of our former PC manufacturing facility. In 2015 other investing activities include leasehold improvements for racking, equipment and build out of our additional warehouse space for IPG segment, new office space for our France operations, expenditures for our inventory and warehousing functions in EMEA and IPG and information and communications systems hardware and software, aggregating $11.3 million. In 2014, other investing activities include office expansions related to our Industrial Products segment, expenditures for the European shared services center, computer and office equipment expenditures for the sales and administrative offices in the United Kingdom, expenditures for our inventory and warehousing functions in Europe, and information and communications systems hardware and software, totaling approximately $7.1 million in 2014.

Net cash used in financing activities was $4.1 million, $3.0 million and $2.3 million in 2016, 2015 and 2014, respectively. In 2016 cash used in financing activities was primarily related to dividends paid. In 2015, we repaid approximately $2.8 million of capital lease obligations and repurchased approximately $0.2 million of treasury stock. In 2014, we repaid approximately $2.6 million of capital lease obligations and net proceeds and excess tax benefit from stock option exercises provided $0.3 million.

The Company maintains a $75.0 million secured revolving credit agreement with one financial institution which has a five year term, maturing on October 28, 2021. The new credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and the inventory advance rate computed as the lesser of 60% or 85% of the net orderly liquidation value (“NOLV”). Borrowings are secured by substantially all of the Borrower’s assets, including all accounts, accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The interest rate under the amended and restated facility is computed at applicable market rates based on the London interbank offered rate (“LIBO”), the Federal Reserve Bank of New York (“NYFRB”) or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of December 31, 2016, eligible collateral under the credit agreement was $64.4 million, total availability was $58.9 million, total outstanding letters of credit were $5.5 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants of the credit agreement in place as of December 31, 2016.

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

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

The expenses, capital expenditures and exit activities described above will require significant levels of liquidity, which we believe can be adequately funded from our currently available cash resources. In 2017 we anticipate capital expenditures of up to $5.0 million, though at this time we are not contractually committed to incur these expenditures. Over the past several years we have engaged in opportunistic acquisitions, choosing to pay the purchase price in cash, and may do so in the future as favorable situations arise. However, a deep and prolonged period of reduced business spending could adversely impact our cash resources and force us to either forego future acquisition opportunities or to pay the purchase price in shares of our common stock, which could have a dilutive effect on our earnings per share. In addition we anticipate cash needs for implementation of the financial systems. We believe that our cash balances, future cash flows from operations and our availability under credit facilities will be sufficient to fund our working capital and other cash requirements for at least the next twelve months.

We maintain our cash and cash equivalents primarily in non-interest bearing cash accounts that partially offset banking fees as the earnings credit for doing so exceeds current money market yields. As of December 31, 2016, we had no investments with maturities of greater than three months. Accordingly, we do not believe that our cash balances have significant exposure to interest rate risk. At December 31, 2016 cash balances held in foreign subsidiaries totaled approximately $42.1 million. These balances are held in local country banks and are not readily available to the U.S. parent company on a tax efficient basis. The Company would need to accrue and pay income taxes on any cash repatriated to the U.S. parent company. The Company has made the decision to indefinitely reinvest earnings in its foreign tax jurisdictions. The Company had in excess of $177.0 million of liquidity (cash and undrawn line of credit) in the U.S. as of December 31, 2016, which is sufficient to fund its U.S. operations and capital needs, including any dividend payments, for the foreseeable future.

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

Following is a summary of our contractual obligations for future principal payments on our debt, minimum rental payments on our non-cancelable operating leases and minimum payments on our other purchase obligations as of December 31, 2016 (in millions):

		Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:						
Capital lease obligations	$	0.2	0.1	0.1	-	-
Non-cancelable operating leases, net of subleases		147.8	19.9	52.6	30.9	44.4
Purchase & other obligations		22.6	4.6	9.0	9.0	-
Total contractual obligations	$	170.6	24.6	61.7	39.9	44.4

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

In addition to the contractual obligations noted above, we had $5.5 million of standby letters of credit outstanding as of December 2016.

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

Tax contingencies are related to uncertain tax positions taken on income tax returns that may result in additional tax, interest and penalties being paid to taxing authorities. As of December 31, 2016, the Company had no material uncertain tax positions.

Off-Balance Sheet Arrangements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks, which include changes in U.S. and international interest rates as well as changes in currency exchange rates (principally British Pounds Sterling, European Union Euros and Canadian Dollars) as measured against the U.S. Dollar and each other.

The translation of the financial statements of our operations located outside of the United States is impacted by movements in foreign currency exchange rates. Changes in currency exchange rates as measured against the U.S. dollar may positively or negatively affect income statement, balance sheet and cash flows as expressed in U.S. dollars. Sales would have fluctuated by approximately $102.4 million and pretax loss would have fluctuated by approximately $2.4 million if average foreign exchange rates changed by 10% in 2016. We have limited involvement with derivative financial instruments and do not use them for trading purposes. We may enter into foreign currency options or forward exchange contracts aimed at limiting in part the impact of certain currency fluctuations, but as of December 31, 2016 we had no outstanding forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. Our variable rate debt consists of short-term borrowings under our credit facilities. As of December 31, 2016, there were no outstanding balances under our variable rate credit facility. A hypothetical change in average interest rates of one percentage point is not expected to have a material effect on our financial position, results of operations or cash flows over the next fiscal year.

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2016. Based upon this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

Inherent Limitations of Internal Controls over Financial Reporting

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

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

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company evaluated the effectiveness of the design and operation of its internal control over financial reporting based on the framework established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's internal control over financial reporting was effective as of December 31, 2016.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2016, a copy of which is included in this report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ending December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its 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 2017 Annual Meeting of Stockholders. (the "Proxy Statement").

Item 11. Executive Compensation.

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

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

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

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

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

Item 14. Principal Accounting Fees and Services.

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

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)	1.	Consolidated Financial Statements of Systemax Inc.	**Reference**
		Reports of Ernst & Young LLP Independent Registered Public Accounting Firm	38
		Consolidated Balance Sheets as of December 31, 2016 and 2015	40
		Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014	41
		Consolidated Statements of Comprehensive Loss for the years ended December 31, 2016, 2015 and 2014	42
		Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014	43
		Consolidated Statements of Shareholders' Equity for the Years ended December 31, 2016, 2015 and 2014	45
		Notes to Consolidated Financial Statements	46
	2.	Financial Statement Schedule:	

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

Schedule II — Valuation and Qualifying Accounts	60

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

Item 15. Exhibits and Financial Statement Schedules.

3. Exhibits.

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (incorporated by reference to the Company's registration statement on Form S-1) (Registration No. 33-92052).
3.2	Certificate of Amendment of Certificate of Incorporation of the Company (incorporated by reference to the Company’s report on Form 8-K dated May 18, 1999).
3.3	Amended and Restated By-laws of the Company (effective as of December 29, 2007, incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2007).
3.4	Amendment to the Bylaws of the Company (incorporated by reference to the Company’s report on Form 8-K dated March 3, 2008).
4.1	Stockholders Agreement (incorporated by reference to the Company’s quarterly report on Form 10-Q for the quarterly period ended September 30, 1995).
10.1*	Form of 1995 Long-Term Stock Incentive Plan (incorporated by reference to the Company’s registration statement on Form S-1) (Registration No. 333-1852).
10.2*	Form of 1995 Stock Plan for Non-Employee Directors (incorporated by reference to the Company’s registration statement on Form S-1) (Registration No. 333-1852).
10.3*	Form of 1999 Long-Term Stock Incentive Plan as amended (incorporated by reference to the Company’s report on Form 8-K dated May 20, 2003).
10.4*	Form of 2006 Stock Incentive Plan for Non-Employee Directors (incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2006).
10.5*	Form of 2005 Employee Stock Purchase Plan (incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2006).
10.6	Build-to-Suit Lease Agreement dated April 1995 among SYX Distribution Inc. (tenant), American National Bank and Trust Company of Chicago (trustee for the original landlord) and Walsh, Higgins & Company (contractor) (Naperville, IL Facility)(“Naperville Lease”) (incorporated by reference to the Company’s registration statement on Form S-1) (Registration No. 33-92052).
10.7	First Amendment, dated as of February 1, 2006, to the Naperville Lease between SYX Distribution Inc. (tenant).and Ambassador Drive LLC (landlord) (incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2005).
10.8	Lease Agreement, dated December 8, 2005, between Global Equipment Company Inc. (tenant) and Hamilton Business Center, LLC (landlord) (Buford, Georgia facility) (the “Buford Lease”) (incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2005).
10.9	First Amendment, dated June 12, 2006, to the Buford Lease, between Global Equipment Company Inc. (tenant) and Hamilton Business Center, LLC (landlord) (Buford, Georgia facility) (incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2005).
10.10*	Employment Agreement, dated as of January 17, 2007, between the Company and Lawrence P. Reinhold (incorporated by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2006).
10.11*	Amendment No. 1, dated December 30, 2009, to the Employment Agreement between the Company and Lawrence P. Reinhold (incorporated by reference to the Company’s report on Form 8-K dated December 30, 2009).
10.12	Lease Agreement, dated April 16, 2010, between Jefferson Project I LLC (landlord) and SYX Distribution Inc. (tenant) (Jefferson, GA facility) (the “Jefferson Lease”) (incorporated by reference to the Company’s quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).

10.13	First Amendment, dated August 24, 2010, to the Jefferson Lease, between Jefferson Project I LLC (landlord) and SYX Distribution Inc. (tenant) (Jefferson, GA facility) (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.14	Lease Agreement, dated February 27, 2012, between PR I Washington Township NJ, LLC (landlord) and Global Equipment Company Inc. (tenant) (Robbinsville, NJ facility) (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.15*	Form of 2010 Long Term Incentive Plan (incorporated by reference to the Company's Definitive Proxy Statement filed April 29, 2010).
10.16*	Employment Agreement, dated April 12, 2012, between the Company and Eric Lerner (incorporated by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended March 31, 2012).
10.17	Lease Agreement, dated December 10, 2014, between Prologis, L.P. (landlord) and Global Industrial Distribution Inc. (tenant) (Las Vegas, NV facility) (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2014).
10.18*	Amendment to the Term of the 2010 Long Term Incentive Plan (incorporated by reference to the Company's Supplemental Proxy Material filed May 18, 2015).
10.19	Third Amended and Restated Credit Agreement dated as of October 28, 2016, by and among Systemax Inc. and certain affiliates thereof and JPMorgan Chase Bank, N.A., as Administrative Agent, Sole Bookrunner and Sole Lead Arranger, and the lenders from time to time party thereto (incorporated by reference to the Company's report on Form 8-K dated November 3, 2016).
10.20	Third Amended and Restated Pledge and Security Agreement dated as of October 28, 2016, by and among Systemax Inc. and certain affiliates thereof and JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the lenders party to the Third Amended and Restated Credit Agreement (incorporated by reference to the Company's report on Form 8-K dated November 3, 2016).
10.21	Amended and Restated Lease dated December 14, 2016, by and between Global Equipment Company Inc. (tenant) and Addwin Realty Associates, LLC (landlord) (Port Washington, NY facility) (incorporated by reference to the Company's report on Form 8-K dated December 16, 2016).
10.22	Lease Agreement, dated January 3, 2013, between Systemax Business Services Kft (tenant) and Corvin Towers Ingatlanforgalmazó Kft (landlord) (Budapest, Hungary facility) (filed herewith).
14	Corporate Ethics Policy for Officers, Directors and Employees (revised as of January 2016) (incorporated by reference to the Company's annual report on Form 10-K for the year ended December 31, 2015).
21	Subsidiaries of the Registrant (filed herewith).
23	Consent of Independent Registered Public Accounting Firm (filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Exhibit is a management contract or compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SYSTEMAX INC.

By: /s/ LAWRENCE REINHOLD

Lawrence Reinhold
President and Chief Executive Officer

Date: March 16, 2017

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

Signature	Title	Date
/s/ RICHARD LEEDS Richard Leeds	Executive Chairman and Director	March 16, 2017
/s/ BRUCE LEEDS Bruce Leeds	Vice Chairman and Director	March 16, 2017
/s/ ROBERT LEEDS Robert Leeds	Vice Chairman and Director	March 16, 2017
/s/ LAWRENCE REINHOLD Lawrence Reinhold	President and Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2017
/s/ THOMAS CLARK Thomas Clark	Vice President and Chief Financial Officer (Principal Financial Officer)	March 16, 2017
/s/ THOMAS AXMACHER Thomas Axmacher	Vice President and Controller (Principal Accounting Officer)	March 16, 2017
/s/ ROBERT ROSENTHAL Robert Rosenthal	Director	March 16, 2017
/s/ STACY DICK Stacy Dick	Director	March 16, 2017
/s/ MARIE ADLER-KRAVECAS Marie Adler-Kravecas	Director	March 16, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Systemax Inc.

We have audited Systemax Inc. and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Systemax Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Systemax Inc. and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
March 16, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Systemax Inc.

We have audited the accompanying consolidated balance sheets of Systemax Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Systemax Inc. and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Systemax Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
March 16, 2017

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

	December 31, 2016	December 31, 2015
ASSETS:		
Current assets:		
Cash	$ 149.7	$ 215.1
Accounts receivable, net of allowances of $19.3 and $15.7	214.5	266.3
Inventories	140.7	144.4
Prepaid expenses and other current assets	6.3	14.5
Total current assets	511.2	640.3
Property, plant and equipment, net	29.5	38.3
Deferred income taxes	4.5	8.6
Goodwill and intangibles	17.3	18.8
Other assets	3.6	4.1
Total assets	$ 566.1	$ 710.1
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 260.4	$ 346.5
Accrued expenses and other current liabilities	64.6	79.6
Total current liabilities	325.0	426.1
Deferred income tax liability	0.5	0.4
Other liabilities	26.2	29.7
Total liabilities	351.7	456.2
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, par value $.01 per share, authorized 25 million shares; issued none		
Common stock, par value $.01 per share, authorized 150 million shares; issued 38,861,992 and 38,861,992 shares; outstanding 36,924,293 and 36,872,688 shares	0.4	0.4
Additional paid-in capital	185.5	184.4
Treasury stock at cost —1,937,699 and 1,989,304 shares	(23.9)	(24.5)
Retained earnings	73.1	109.4
Accumulated other comprehensive loss	(20.7)	(15.8)
Total shareholders' equity	214.4	253.9
Total liabilities and shareholders' equity	$ 566.1	$ 710.1

See notes to consolidated financial statements.

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

	Year Ended December 31, 2016	2015	2014
Net sales	$ 1,680.1	$ 1.854.7	$ 2,104.2
Cost of sales	1,355.4	1,512.0	1,727.0
Gross profit	324.7	342.7	377.2
Selling, general and administrative expenses	314.7	338.9	375.0
Special charges, net	5.9	27.9	15.9
Operating income (loss) from continuing operations	4.1	(24.1)	(13.7)
Foreign currency exchange loss	1.1	9.8	5.3
Interest and other income, net	0.9	0.9	1.1
Income (loss) from continuing operations before income taxes	2.1	(34.8)	(20.1)
Provision for income taxes	10.0	13.5	11.9
Net loss from continuing operations	(7.9)	(48.3)	(32.0)
Loss from discontinued operations, net of tax	(24.7)	(51.5)	(5.5)
Net loss	$ (32.6)	$ (99.8)	$ (37.5)
Basic and diluted EPS:			
Net loss per share from continuing operations	$ (0.21)	$ (1.30)	$ (0.86)
Net loss per share from discontinued operations	$ (0.66)	$ (1.39)	$ (0.15)
Net loss per share, basic and diluted	$ (0.87)	$ (2.69)	$ (1.01)
Weighted average common and common equivalent shares:			
Basic and diluted	37.2	37.1	37.1
Dividends declared and paid	$ 0.10	-	-

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
Net loss	$ (32.6)	$ (99.8)	$ (37.5)
Other comprehensive loss:			
Foreign currency translation loss	(4.9)	(6.9)	(11.1)
Total comprehensive loss	$ (37.5)	$ (106.7)	$ (48.6)

See notes to consolidated financial statements.

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

	Year Ended December 31,		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss from continuing operations	$ (7.9)	$ (48.3)	$ (32.0)
Adjustments to reconcile loss from continuing operations to net cash provided by (used in) operating activities:			
Depreciation and amortization	7.9	9.3	11.5
Asset impairment and other non-cash benefit	1.8	1.4	10.2
Provision for deferred income taxes	4.4	5.5	0.7
Provision for returns and doubtful accounts	4.6	7.9	8.9
Compensation expense related to equity compensation plans	1.7	1.2	1.5
(Gain) loss on dispositions and abandonment	(4.2)	(0.1)	0.1
Changes in operating assets and liabilities:			
Accounts receivable	35.6	70.7	(54.0)
Inventories	0.5	153.5	23.9
Prepaid expenses and other current assets	6.7	2.7	(1.0)
Income taxes payable (receivable)	0.6	(0.3)	14.4
Accounts payable	(70.4)	(62.7)	10.1
Accrued expenses and other current liabilities	(14.6)	(5.2)	6.5
Net cash provided by (used in) operating activities from continuing operations	(33.3)	135.6	0.8
Net cash provided by (used in) operating activities from discontinued operations	(24.1)	(49.1)	(0.9)
Net cash provided by (used in) operating activities	(57.4)	86.5	(0.1)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3.3)	(11.3)	(7.1)
Proceeds from disposals of property, plant and equipment	0.6	1.4	1.0
Acquisitions net of cash acquired	-	(24.8)	(6.4)
Net cash used in investing activities	(2.7)	(34.7)	(12.5)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayments of capital lease obligations	(0.4)	(2.8)	(2.6)
Dividends paid	(3.7)	-	-
Proceeds from issuance of common stock	-	-	0.3
Repurchase of treasury stock	-	(0.2)	-
Net cash used in financing activities	(4.1)	(3.0)	(2.3)
EFFECTS OF EXCHANGE RATES ON CASH	(1.2)	1.3	(1.5)
NET INCREASE (DECREASE) IN CASH	(65.4)	50.1	(16.4)
CASH – BEGINNING OF YEAR	215.1	165.0	181.4
CASH – END OF YEAR	$ 149.7	$ 215.1	$ 165.0
Supplemental disclosures:			
Interest paid	$ 0.7	$ 0.7	$ 1.1
Income taxes paid	$ 5.8	$ 4.1	$ 5.2
Supplemental disclosures of non-cash investing and financing activities:			
Acquisitions of equipment through capital leases	$ -	$ -	$ 0.8

See notes to consolidated financial statements.

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

	Common Stock						
	Number of Shares Outstanding	Amount	Additional Paid-in Capital	Treasury Stock, At Cost	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balances, December 31, 2013	36,729	$ 0.4	$ 183.3	$ (26.4)	$ 246.7	$ 2.2	$ 406.2
Stock-based compensation expense			1.5				1.5
Issuance of restricted stock	45		(0.3)	0.6			0.3
Exercise of stock options	34		(0.1)	0.4			0.3
Surrender of fully vested options			(0.1)				(0.1)
Change in cumulative translation adjustment						(11.1)	(11.1)
Net loss					(37.5)		(37.5)
Balances, December 31, 2014	36,808	$ 0.4	$ 184.3	$ (25.4)	$ 209.2	$ (8.9)	359.6
Stock-based compensation expense			1.2				1.2
Issuance of restricted stock	86		(1.1)	1.1			-
Exercise of stock options	4		-	-			-
Surrender of fully vested options	(25)			(0.2)			(0.2)
Change in cumulative translation adjustment						(6.9)	(6.9)
Net loss					(99.8)		(99.8)
Balances, December 31, 2015	36,873	$ 0.4	$ 184.4	$ (24.5)	$ 109.4	$ (15.8)	$ 253.9
Stock-based compensation expense			1.7				1.7
Issuance of restricted stock	51		(0.6)	0.6			-
Dividends paid					(3.7)		(3.7)
Change in cumulative translation adjustment						(4.9)	(4.9)
Net loss					(32.6)		(32.6)
Balances, December 31, 2016	36,924	$ 0.4	$ 185.5	$ (23.9)	$ 73.1	$ (20.7)	$ 214.4

See notes to consolidated financial statements.

SYSTEMAX INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Systemax Inc. is primarily a direct marketer of brand name and private label products. Since the December 2015 sale of the North American Technology Group ("NATG") business, the Company has operated and is internally managed in two reportable segments - Industrial Products Group ("IPG") and EMEA Technology Products Group ("EMEA"). Smaller business operations and corporate functions are aggregated and reported as an additional segment – Corporate and Other ("Corporate"). As previously disclosed in December 2015, the Company sold certain assets and liabilities of its NATG business and at that time began the wind-down of the remaining business. This wind-down is substantially complete although the Company has continued with collecting accounts receivable, settling accounts payable, marketing remaining leased facilities, as well as, settling remaining lease obligations and other contingencies during the current year.

As disclosed in its Form 10-K for the fiscal year 2015, the Company announced a restructuring of its NATG business in March 2015. The NATG segment sold products categorized as Information and Communications Technology ("ICT") and Consumer Electronics ("CE") products. These products included computers, computer supplies and consumer electronics which were marketed in North America. The Company followed the guidance under Accounting Standards Update ("ASU") 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,* which required disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. Under ASU 2014-08 in order for a disposal to qualify for discontinued operations presentation in the financial statements, the disposal must be a "strategic shift" with a major impact for the reporting entity. If the entity meets this threshold, only the components that were in operation at the time of disposal are presented as discontinued operations. The sale of the NATG business in December 2015 had a major impact on the Company and therefore met the strategic shift criteria. The NATG components in operation at the time of the sale were the B2B and Ecommerce businesses and three remaining retail stores. Accordingly, these components and the results of operations have been adjusted in the accompanying financial statements to reflect their presentation in discontinued operations.

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

Reclassifications — Certain prior year amounts were reclassified to conform to current year presentation.

Fiscal Year — The Company's fiscal year ends at midnight on the Saturday closest to December 31. For clarity of presentation herein, all fiscal years are referred to as if they ended on December 31. The fiscal year is divided into four fiscal quarters that each end at midnight on a Saturday. Fiscal quarters will typically include 13 weeks, but the fourth quarter will include 14 weeks in a 53 week fiscal year. For clarity of presentation herein, all fiscal quarters are referred to as if they ended on the traditional calendar month. The full year of 2016 included 52 weeks compared to 2015 which had 53 weeks and 2014 which included 52 weeks.

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

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

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

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

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

Property, Plant and Equipment — Property, plant and equipment is stated at cost. Furniture, fixtures and equipment, including equipment under capital leases, are depreciated using the straight-line or accelerated method over their estimated useful lives ranging from three to ten years. Buildings are depreciated using the straight-line method over estimated useful lives of 30 to 50 years. Leasehold improvements are amortized over the shorter of the useful lives or the term of the respective leases.

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

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

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

In 2016, an impairment charge of approximately $1.7 million was recorded in the EMEA operations in the United Kingdom as a result of negative cash flows in the business. In 2015, as a result of negative cash flows in the discontinued NATG operations and the EMEA operations in Germany, Italy, Spain and Sweden, the Company conducted an evaluation of the long-lived assets in those operations and concluded that those assets were impaired. Accordingly an impairment charge of approximately $1.4 million was recorded during the year ended December 31, 2015. In 2014, NATG operations recorded an impairment charge of $10.0 million after the Company conducted an evaluation of its long-lived assets and determined that those assets were impaired.

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

Goodwill and Intangible Assets — Goodwill represents the excess of the cost of acquired assets over the fair value of assets acquired. The Company performs a qualitative assessment of goodwill and non-amortizing intangibles to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment shows that the fair value of the reporting unit exceeds its carrying amount, the company is not required to complete the annual two step goodwill impairment test. If a quantitative analysis is required to be performed for goodwill, the fair value of the reporting unit to which the goodwill has been assigned is determined using a discounted cash flow model. A discounted cash flow model is also used to determine fair value of indefinite-lived intangibles using projected cash flows of the intangible. Unobservable inputs related to these discounted cash flow models include projected sales growth, same store sales growth, gross margin percentages, new business opportunities, working capital requirements, capital expenditures and growth in selling, general and administrative expense.

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

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

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

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

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

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

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

Net advertising expenses were $71.4 million, $74.4 million and $68.1 million during 2016, 2015 and 2014, respectively, and are included in the accompanying consolidated statements of operations. Of the previously mentioned amounts, NATG operations net advertising expenses totaled $1.5 million, $7.5 million and $10.7 million during 2016, 2015 and 2014, respectively. The Company utilizes advertising programs to support vendors, including catalogs, internet and magazine advertising, and receives payments and credits from vendors, including consideration pursuant to volume incentive programs and cooperative marketing programs. The Company accounts for consideration from vendors as a reduction of cost of sales unless certain conditions are met showing that the funds are used for specific, incremental, identifiable costs, in which case the consideration is accounted for as a reduction in the related expense category, such as advertising expense. The amount of vendor consideration recorded as a reduction of selling, general and administrative expenses totaled $6.4 million, $20.2 million and $38.8 million during 2016, 2015 and 2014, respectively. Of the previously mentioned amounts, NATG operations vendor consideration for 2016 was $0.9 million in costs due to vendor balance reconciliations. For 2015 and 2014, NATG operations vendor consideration was recorded as a reduction of selling, general and administrative expenses of $12.1 million and $24.9 million, respectively.

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

Net Income (Loss) Per Common Share – Net income per common share - basic is calculated based upon the weighted average number of common shares outstanding during the respective periods presented using the two class method of computing earnings per share. The two class method was used as the Company has outstanding restricted stock with rights to dividend participation for unvested shares. Net income per common share - diluted was calculated based upon the weighted average number of common shares outstanding and included the equivalent shares for dilutive options outstanding during the respective periods, including unvested options. The dilutive effect of outstanding options and restricted stock issued by the Company is reflected in net income per share - diluted using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options.

Basic and diluted net loss per share was the same for each period presented as the inclusion of all potential shares of common stock of the Company outstanding would have been anti-dilutive. The weighted average number of stock options and restricted stock awards outstanding excluded from the computation of diluted earnings (loss) per share was 1.3 million shares, 1.0 million shares and 0.8 million shares for the years ended December 31, 2016, 2015 and 2014, respectively, due to their antidilutive effect.

Employee Benefit Plans - The Company's U.S. subsidiaries participate in a defined contribution 401(k) plan covering substantially all U.S. employees. Employees may invest 1% or more of their eligible compensation, limited to maximum amounts as determined by the Internal Revenue Service. The Company provides a matching contribution to the plan, determined as a percentage of the employees' contributions. Aggregate expense to the Company for contributions to the plan was approximately $0.4 million in 2016 and $0.9 million in 2015 and 2014, respectively and of these amounts, NATG operations expense was $0.0 million, $0.4 million and $0.5 million in each of 2016, 2015 and 2014, respectively.

Fair Value Measurements - Financial instruments consist primarily of investments in cash, trade accounts receivable, debt and accounts payable. The Company estimates the fair value of financial instruments based on interest rates available to the Company. At December 31, 2016 and 2015, the carrying amounts of cash, accounts receivable and accounts payable are considered to be representative of their respective fair values due to their short-term nature. Cash is classified as Level 1 within the fair value hierarchy. The Company's debt is considered to be representative of its fair value because of its variable interest rate. The weighted average interest rate on short-term borrowings was 4.7%, 4.3%, and 4.3% in 2016, 2015 and 2014, respectively.

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

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

The Company purchases substantially all of our products and components directly from manufacturers and large wholesale distributors. Two vendors accounted for 10% of more of our purchases in 2016: one vendor accounted for 15.2% and another vendor accounted for 13.8%. Two vendors accounted for 10% or more of our purchases in 2015 and 2014: one vendor accounted for 12.2% and 12.6%, respectively; another vendor accounted for 10.9% and 11.6%, respectively. Excluding NATG operations, no vendor accounted for 10% or more of our purchases in 2015 or 2014.

Recent Accounting Pronouncements

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* , to clarify the principles of recognizing revenue and create common revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. Following the FASB's finalization of a one year deferral of this standard, the ASU is now effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2017, with early adoption permitted for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2016. This ASU can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of the adoption. The standard supersedes existing revenue recognition guidance and replaces it with a five step revenue model with a core principle that an entity recognizes revenue to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* which clarifies the implementation guidance on principal versus agent considerations

The Company intends to adopt the new guidance on January 1, 2018, with a cumulative-effect adjustment to opening retained earnings under the modified retrospective approach. Currently, the Company recognizes revenue when title passes to customers. The Company's implementation of this ASU includes the evaluation of its customer agreements to identify terms or conditions that could be considered a performance obligation such that, if material to the terms of the contract, consideration would be allocated to the performance obligation and could accelerate or defer the timing of recognizing revenue. The Company also continues to evaluate the presentation of its principal versus agent arrangements.

The Company's evaluation of the new guidance is not yet complete; however, based on the nature of the Company's primary revenue sources and current policies, the Company does not expect a significant change in the timing and presentation of recognizing its revenue.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Inventory - Simplifying the Measurement of Inventory* (Topic 330) ("ASU No. 2015-11"). ASU No. 2015-11 requires an entity to measure inventory within the scope of the update at the lower of cost and net realizable value, and defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Effective January 1, 2016, the company adopted the provisions of ASU No. 2015-11 on a prospective basis. The adoption of the provisions of ASU No. 2015-11 did not materially impact the company's consolidated financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements—Going Concern* . This guidance addresses management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016. Early adoption is permitted. The Company adopted this guidance in the fourth quarter of 2016 and based on the management assessment, there are no conditions and events that raise substantial doubt about the Company's ability to continue as a going concern. As a result, the adoption of this standard had no impact on the Company's consolidated financial statements and disclosures.

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

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* , which modifies certain accounting aspects for share-based payments to employees including, among other elements, the accounting for income taxes and forfeitures, as well as classifications in the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The new guidance will be effective for the Company starting in the first quarter of fiscal 2017. Early adoption is permitted in any annual or interim period. The company does not expect the adoption of ASU No. 2016-19 to materially impact the Company's consolidated financial position or result of operations.

2. ACQUISITIONS

On January 30, 2015, IPG acquired all of the outstanding equity interests of the Plant Equipment Group ("PEG") from TAKKT America, a business-to-business direct marketer of maintenance, repair and operations ("MRO") products with operations in North America for approximately $25.9 million in cash. This acquisition expanded the IPG segment presence in the MRO market in North America. The acquisition is considered an asset acquisition for tax purposes and as such, the goodwill resulting from this acquisition is tax deductible. The total associated transaction costs of the acquisition were $0.4 million and were recorded in selling, general and administrative expense. The acquisition was accounted for using the acquisition method of accounting, which requires, among other things, the assets acquired and the liabilities assumed be recognized at their fair values as of the acquisition date.

The following table summarizes the fair value of the assets acquired and liabilities assumed (in millions):

Purchase price	$	25.9
Less:		
Cash		1.1
Accounts receivable		10.0
Inventory		11.8
Fixed assets		1.2
Prepaid expenses		0.6
Leases, net		0.8
Client lists		2.1
Trademarks		4.1
Accounts payable		(7.5)
Accrued expenses		(3.7)
Other liabilities		(0.2)
Goodwill	$	5.6

The amount allocated to goodwill reflects the benefits the Company expects to realize from the growth of the acquisition's operations.

For the twelve months ended December 31, 2015, PEG generated approximately $89.1 million in revenue and approximately $1.1 million of pretax income. In January 2016 PEG was fully integrated with the existing IPG segment.

The Company's unaudited pro forma revenue and net loss from continuing operations for the years ended December 31, 2015 and 2014 below have been prepared as if PEG had been purchased on January 1, 2014 (in millions).

	Unaudited Pro Forma	
	2015	2014
Revenue	$ 1,861.5	$ 2,204.4
Net loss from continuing operations	$ (48.3)	$ (32.4)

The unaudited pro forma financial information above is not necessarily indicative of what the Company's consolidated results actually would have been if the acquisitions had been completed at the beginning of the respective periods. In addition, the unaudited pro forma information above does not attempt to project the Company's future results.

3. DISPOSITIONS

As previously stated, the NATG business has been discontinued and below is a reconciliation of pretax loss from discontinued operations to the net loss from discontinued operations.

A reconciliation of pretax loss of Discontinued Operations to the Net Loss of Discontinued Operations is as follows:

	Year Ended December 31,		
	2016	2015	2014
Net sales	$ 11.8	$ 1,053.4	$ 1,338.6
Cost of sales	13.1	997.1	1,222.6
Gross profit (loss)	(1.3)	56.3	116.0
Selling, general and administrative expenses	14.0	109.9	119.7
Special charges, net	9.5	1.6	8.5
Operating loss from discontinued operations	(24.8)	(55.2)	(12.2)
Foreign currency exchange (gain) loss	0.2	(0.5)	0.1
Interest and other income, net	(0.3)	0.1	0.2
Loss of discontinued operations before income taxes	(24.7)	(54.8)	(12.5)
Benefit for income tax	-	(3.3)	(7.0)
Net loss from discontinued operations	(24.7)	(51.5)	(5.5)

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

4. GOODWILL AND INTANGIBLES

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

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

	December 31, 2016	December 31, 2015
Balance, January 1	$ 9.2	$ 3.9
Additions associated with acquisition	-	5.6
Impairment	(0.4)	-
Foreign currency translation	-	(0.3)
Balance, December 31	$ 8.8	$ 9.2

The Company has one trademark of $0.7 million that is considered an indefinite-lived intangible. In 2016 $5.7 million of trademarks and domain names that were considered indefinite-lived intangibles in prior years are now considered definite lived based upon changes in circumstances.

Definite-lived intangible assets:

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

	December 31, 2016				
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted avg useful life
Client lists	5-10 yrs	$ 5.5	$ 3.4	$ 2.1	7.6
Leases	3-6 yrs	0.8	0.3	0.5	4.1
Domain name	5 yrs	3.4	0.2	3.2	4.8
Trademark	5 yrs	2.5	0.5	2.0	4.0
Total		$ 12.2	$ 4.4	$ 7.8	5.3

The following table summarizes information related to definite-lived intangible assets as of December 31, 2015 (in millions):

	December 31, 2015				
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted avg useful life
Client lists	5-10 yrs	$ 5.5	$ 3.0	$ 2.5	8.3
Leases	3-6 yrs	0.8	0.1	0.7	4.7
Trademark	5 yrs	0.2	0.2	-	-
Total		$ 6.5	$ 3.3	$ 3.2	7.3

The aggregate amortization expense for these intangibles was approximately $1.1 million in 2016. The estimated amortization for future years ending December 31 is as follows (in millions):

2017	$ 1.7
2018	1.6
2019	1.5
2020 and after	3.0
Total	$ 7.8

5. PROPERTY, PLANT AND EQUIPMENT

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

	December 31,	
	2016	2015
Land and buildings	$ 14.9	$ 17.7
Furniture and fixtures, office, computer and other equipment and software	58.2	108.7
Leasehold improvements	18.4	21.8
	91.5	148.2
Less accumulated depreciation and amortization	62.0	109.9
Property, plant and equipment, net	$ 29.5	$ 38.3

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

	2016	2015
Office, computer and other equipment	$ 6.0	$ 17.5
Less: Accumulated amortization	5.5	16.3
	$ 0.5	$ 1.2

Depreciation charged to operations for property, plant and equipment including capital leases in 2016, 2015, and 2014 was $7.4 million, $11.1 million and $15.4 million, respectively. NATG operations accounted for $0.6 million, $3.1 million and $8.5 million, of these amounts in 2016, 2015 and 2014, respectively.

6. CREDIT FACILITIES

The Company maintains a $75.0 million secured revolving credit agreement with one financial institution which has a five year term, maturing on October 28, 2021. The new credit agreement contains certain operating, financial and other covenants, including limits on annual levels of capital expenditures, availability tests related to payments of dividends and stock repurchases and fixed charge coverage tests related to acquisitions. The revolving credit agreement requires that a minimum level of availability be maintained. If such availability is not maintained, the Company will be required to maintain a fixed charge coverage ratio (as defined). The borrowings under the agreement are subject to borrowing base limitations of up to 85% of eligible accounts receivable and the inventory advance rate computed as the lesser of 60% or 85% of the net orderly liquidation value ("NOLV"). Borrowings are secured by substantially all of the borrower's assets, including all accounts, accounts receivable, inventory and certain other assets, subject to limited exceptions, including the exclusion of certain foreign assets from the collateral. The interest rate under the amended and restated facility is computed at applicable market rates based on the London interbank offered rate ("LIBO"), the Federal Reserve Bank of New York ("NYFRB") or the Prime Rate, plus an applicable margin. The applicable margin varies based on borrowing base availability. As of December 31, 2016, eligible collateral under the credit agreement was $64.4 million, total availability was $58.9 million, total outstanding letters of credit were $5.5 million and there were no outstanding borrowings. The Company was in compliance with all of the covenants of the credit agreement in place as of December 31, 2016.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31,	
	2016	2015
Payroll and employee benefits	$ 24.4	$ 31.0
Advertising	6.7	7.6
Sales and VAT tax payable	6.2	5.1
Freight	3.4	5.6
Reorganization costs	7.6	6.3
Deferred revenue	4.2	5.4
Other	12.1	18.6
	$ 64.6	$ 79.6

8. SPECIAL CHARGES, NET

In 2016 the Company incurred special charges of $15.4 million within the EMEA and NATG segments, of which $5.9 million is included in continuing operations and $9.5 million is included in discontinued operations.

The Company's EMEA segment incurred special charges of approximately $3.7 million, $2.0 million related to impairment charges related to goodwill and long-lived assets in its United Kingdom operations and $1.7 million related to the sale of certain assets of its German business, including customer relationships and the employees of its Misco Germany branch. The Germany operations charges incurred included approximately $1.0 million for lease termination costs (includes $0.3 million benefit related to previous rent accruals), $0.6 million for professional fees related to the sale and approximately $0.1 million for write off of inventory and fixed assets. Amounts related to the sale that are unpaid at December 31, 2016 are recorded in Accrued expenses and other current liabilities and Other liabilities in the accompanying consolidated balance sheets.

The Company's NATG segment incurred special charges for the year ended December 31, 2016 of approximately $11.7 million, of which $2.2 million is included in continuing operations and $9.5 million is included in discontinued operations. Charges incurred included approximately $10.9 million for lease terminations and other exit costs (includes $3.3 million benefit of previous rent accruals) for the closing of the two remaining retail stores, a distribution center and the NATG corporate headquarters in 2016, approximately $2.0 million of additional lease termination costs (includes $0.1 million benefit of previous rent accruals) of our previously exited retail stores (present value of contractual gross lease payments net of sublease rental income, or settlement amount), $0.6 million for consulting expenses related to the lease terminations and $0.2 million for severance and related expenses.

NATG also incurred approximately $1.3 million of professional costs, related to the ongoing restitution proceedings against certain former NATG executives and professional costs related to the investigation conducted at the request of the US Attorney for the Southern District of Florida. These charges were offset by approximately $1.3 million received as a partial payment related to the investigation, settlement, prosecution, and restitution proceedings related to the former NATG executives, $1.1 million benefit related to the settlement of vendor obligations, $0.5 million received from auction proceeds from the sale of fixed assets and approximately $0.4 million received when the buyer of NATG exercised its option to acquire the consumer customer lists and related information of the business. Amounts related to the discontinued NATG business that are unpaid at December 31, 2016 are recorded in Accrued expenses and other current liabilities and Other liabilities in the accompanying consolidated balance sheets. The Company expects that total additional NATG wind-down costs will be between $1 million and $5 million, which will be presented in discontinued operations. Additional costs may be incurred for outstanding leased facilities as they are settled or sublet and any changes in estimates related to the collection of remaining accounts receivable.

The following table details the associated liabilities related to the EMEA and former NATG segments special charges (in millions):

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

The following table details the associated liabilities incurred related to the Technology Products segments special charges (in millions) for 2015:

	EMEA- Workforce Reductions and Personnel Costs	NATG- Workforce Reductions	NATG- Other Exit Costs	Total
Balance, January 1, 2015	$ 4.7	$ -	$ -	$ 4.7
Charged to expense	0.4	5.5	33.0	38.9
Paid or otherwise settled	(4.8)	(2.8)	(16.7)	(24.3)
Balance, December 31, 2015	$ 0.3	$ 2.7	$ 16.3	$ 19.3

9. SHAREHOLDERS' EQUITY

Stock-Based Compensation Plans

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

The 1999 Long-term Stock Incentive Plan, as amended ("1999 Plan") - This plan was adopted in October 1999 with substantially the same terms and provisions as the 1995 Long-term Stock Incentive Plan. The number of shares that may be granted under this plan to a maximum of 7,500,000. The maximum number of shares granted per type of award to any individual may not exceed 1,500,000 in any calendar year and 3,000,000 in total. The ability to grant new awards under this plan ended on December 31, 2009 but awards granted prior to such date continue until their expiration. A total of 381,500 options were outstanding under this plan as of December 31, 2016.

The 2006 Stock Incentive Plan For Non-Employee Directors - This plan, adopted by the Company's stockholders in October, 2006, replaces the 1995 Stock Option Plan for Non-Employee Directors. The Company adopted the plan so that it could offer directors of the Company who are not employees of the Company or of any entity in which the Company has more than a 50% equity interest ("independent directors") an opportunity to participate in the ownership of the Company by receiving options to purchase shares of common stock at a price equal to the fair market value at the date of grant of the option and restricted stock awards. Awards for a maximum of 200,000 shares may be granted under this plan. A total of 5,000 options were outstanding under this plan as of December 31, 2016.

The 2010 *Long-term Stock Incentive Plan ("2010 Plan")* - This plan was adopted in April, 2010 with substantially the same terms and provisions as the 1999 Long-term Stock Incentive Plan. The maximum number of shares granted per type of award to any individual may not exceed 1,500,000 in any calendar year. Restricted stock grants and common stock awards reduce stock options otherwise available for future grant. Awards for a maximum of 7,500,000 shares may be granted under this plan. A total of 1,023,750 options and 250,000 restricted stock units were outstanding under this plan as of December 31, 2016.

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

Compensation cost related to non-qualified stock options recognized in operating results (selling, general and administrative expense) for 2016, 2015 and 2014 was $0.8 million, $0.2 million, and $0.7 million respectively, and of these amounts NATG segment's compensation cost related to non-qualified stock options was de minimis in 2016, 2015 and 2014. The related future income tax benefits recognized for 2016, 2015 and 2014 were $0.3 million, $0.1 million and $0.2 million, respectively.

Stock Options

The following table presents the weighted-average assumptions used to estimate the fair value of options granted in 2016, 2015 and 2014:

	2016	2015	2014
Expected annual dividend yield	0%	0%	0%
Risk-free interest rate	1.64%	1.73%	2.02%
Expected volatility	44.4%	40.2%	46.9%
Expected life in years	7.1	6.3	6.2

The following table summarizes information concerning outstanding and exercisable options:

	Weighted Average								
	2016			2015			2014		
	Shares		Weighted Avg. Exercise Price	Shares		Weighted Avg. Exercise Price	Shares		Weighted Avg. Exercise Price
Outstanding at beginning of year	954,625	$	15.98	1,127,250	$	16.12	1,175,499	$	16.11
Granted	670,000	$	8.43	25,000	$	10.62	90,000	$	13.56
Exercised	-	$	-	(4,000)	$	6.30	(33,749)	$	9.78
Cancelled or expired	(214,375)	$	14.86	(193,625)	$	16.29	(104,500)	$	15.83
Outstanding at end of year	1,410,250	$	12.57	954,625	$	15.98	1,127,250	$	16.12
Options exercisable at year end	750,250			832,125			839,500		
Weighted average fair value per option granted during the year	$ 3.94			$ 4.44			$ 6.46		

The total intrinsic value of options exercised was de minimis in 2016 and 2015 and $0.2 million for 2014.

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The following table summarizes information about options vested and exercisable or nonvested that are expected to vest (nonvested outstanding less expected forfeitures) at December 31, 2016:

Range of Exercise Prices					Number Exercisable	Weighted Average Exercise Price		Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in millions)	
$	5.00	to	$	10.00	573,362	$	8.54	9.23	$	0.2
$	10.01	to	$	15.00	357,750	$	13.04	3.17		-
$	15.01	to	$	20.00	290,000	$	18.63	3.74		-
$	20.01	to	$	20.15	100,000	$	20.15	.05		-
$	5.00	to	$	20.15	1,321,112	$	12.85	5.69	$	0.2

The aggregate intrinsic value in the tables above represents the total pretax intrinsic value (the difference between the closing stock price on the last day of trading in 2016 and the exercise price) that would have been received by the option holders had all options been exercised on December 31, 2016. This value will change based on the fair market value of the Company's common stock.

The following table reflects the activity for all unvested stock options during 2016:

	Shares	Weighted Average Grant-Date Fair Value	
Unvested at January 1, 2016	122,500	$	7.40
Granted	670,000	$	3.94
Vested	(75,000)	$	8.40
Forfeited	(57,500)	$	4.43
Unvested at December 31, 2016	660,000	$	4.02

At December 31, 2016, there was approximately $1.9 million of unrecognized compensation costs related to unvested stock options, which is expected to be recognized over a weighted average period of 3.37 years. The total fair value of stock options vested during 2016, 2015 and 2015 was $0.6 million, $1.1 million and $1.2 million, respectively.

Restricted Stock and Restricted Stock Units

In August 2010, the Company granted 175,000 RSUs under the 2010 Plan to a key employee who is also a Company director. These RSUs have none of the rights as other shares of common stock, other than rights to cash dividends, until common stock is distributed. This RSU award was a non-performance award which vests in ten equal annual installments of 17,500 units beginning May 15, 2011 and each May 15, thereafter. Compensation expense related to this RSU award was approximately $0.1 million in 2016 and approximately $0.2 million during each of 2015 and 2014.

In November 2011, the Company granted 100,000 RSUs under the 2010 Plan to a key employee who is also a Company director. This RSU award was a non-performance award which vests in ten equal annual installments of 10,000 units beginning November 14, 2012 and each November 14 thereafter. Compensation expense related to this RSU award was approximately $0.1 million in 2016 and approximately $0.2 million during each of 2015 and 2014.

In January 2012 and March 2012, the Company granted 50,000 RSUs under the 2010 Plan to each of two key employees. These RSU awards were non-performance awards which vest in ten equal annual installments of 10,000 units beginning January 3, 2013 and March 1, 2013, respectively, and each January 3 and March 1, thereafter. The termination without cause of one of these key employees during 2015 caused the accelerated vesting of the remaining 35,000 shares in accordance with the restricted stock agreement with the Company. Compensation expense related to the remaining RSU award was approximately $0.1 million in 2016, and combined compensation expense was approximately $0.4 million and $0.3 million during each of 2015 and 2014.

In July 2015, the Company granted 23,620 RSUs under the 2010 Plan to, at that time, a key employee. This RSU award was a non-performance award which was to vest in four equal annual installments of 5,905 units beginning July 6, 2015 and each July 6 thereafter. This key employee was terminated in the third quarter of 2016 and this award was forfeited. Compensation expense related to this RSU award was de minimis in 2016.

In February 2016, the Company granted 75,000 RSUs under the 2010 Plan to certain key employees, one of whom is also a Company director. The RSU awards were non-performance awards which vest in three annual installments beginning February 1, 2017. Compensation expense related to these RSU awards was $0.5 million during 2016.

Share-based compensation expense for restricted stock issued to Directors was $0.1 million in each of 2016, 2015 and 2014. All of the above share-based compensation expense is recognized in selling, general and administrative expense in 2016, 2015 and 2014.

10. INCOME TAXES

The components of income (loss) from continuing operations before income taxes are as follows (in millions):

	Year Ended December 31,		
	2016	2015	2014
United States	$ 15.9	$ (14.5)	$ 1.9
Foreign	(13.8)	(20.3)	(22.0)
Total	$ 2.1	$ (34.8)	$ (20.1)

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

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ -	$ 3.1	$ 7.6
State	1.2	0.6	0.4
Foreign	4.4	4.3	3.2
Total current	5.6	8.0	11.2
Deferred:			
Federal	0.1	0.1	-
State	1.1	-	(0.3)
Foreign	3.2	5.4	1.0
Total deferred	4.4	5.5	0.7
TOTAL	$ 10.0	$ 13.5	$ 11.9

Tax benefit from discontinued operations was $0.0 million, $(3.3) million and $(7.0) million for the years ended December 31, 2016, 2015 and 2014, respectively. Income taxes are accrued and paid by each foreign entity in accordance with applicable local regulations.

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

	Year Ended December 31 ,					
	2016		2015		2014	
Income tax at Federal statutory rate	$ 0.7	(35.0)%	$ (12.2)	(35.0)%	$ (7.1)	(35.0)%
Foreign taxes at rates different from the U.S. rate	5.2	(247.6)	7.7	22.2	5.2	25.9
State and local income taxes, net of federal tax benefit	(0.6)	28.6	(1.4)	(3.9)	1.6	8.2
Impact of state rate changes	1.4	(66.7)	0.7	1.9	-	-
Changes in valuation allowances	2.8	(133.3)	18.8	54.2	12.4	61.5
Change in deferred tax liability	-	-	-	-	-	-
Non-deductible items	0.4	(19.0)	0.1	0.2	-	-
Other items, net	0.1	(4.8)	(0.2)	(0.8)	(0.2)	(1.1)
Income tax	$ 10.0	(477.8)%	$ 13.5	38.8%	$ 11.9	59.5%

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

	December 31, 2016	December 31, 2015
Assets:		
Accrued expenses and other liabilities	$ 12.2	$ 12.4
Inventory	1.5	5.6
Depreciation	0.6	0.8
Intangible & other	13.5	13.0
Net operating loss and credit carryforwards	66.4	57.4
Valuation allowances	(89.7)	(80.6)
Total non-current deferred tax assets	4.5	8.6
Liabilities :		
Non-current:		
Other	$ 0.5	$ 0.4
Total non-current liabilities	$ 0.5	$ 0.4

During the current year the Company recorded valuation allowances against deferred tax assets of approximately $9.1 million. These valuation allowances were recorded against U.S. federal deferred tax assets of approximately $4.5 million, foreign deferred tax assets of $5.6 million and state deferred tax asset valuation allowances of approximately $(1.0) million. These valuation allowances were recorded primarily as a result of the Company's belief that the deferred assets are not likely to be realized due to recent losses.

The Company has not provided for federal income taxes applicable to the undistributed earnings of its foreign subsidiaries of approximately $36.4 million as of December 31, 2016, since these earnings are considered indefinitely reinvested. The Company has gross foreign net operating loss carryforwards of $133.0 million which expire through 2032 and gross U.S. federal net operating loss carry forwards of $72.4 million which expire through 2036. The Company records these benefits as assets to the extent that utilization of such assets is more likely than not; otherwise, a valuation allowance has been recorded. The Company has also provided valuation allowances for certain state deferred tax assets and net operating loss carryforwards where it is not likely they will be realized.

As of December 31, 2016, the Company has approximately $1.6 million in federal tax credit carryforwards expiring in years through 2026 and various amounts of state and foreign net operating loss carryforwards expiring through 2036. The Company has recorded valuation allowances of approximately $89.7 million, including valuations against the federal and state deductibility of temporary differences including net operating losses of $48.1 million and $8.8 million respectively, foreign tax credits of $1.6 million and tax effected temporary differences and net operating loss carryforwards in foreign jurisdictions of $31.2 million.

The Company is routinely audited by federal, state and foreign tax authorities with respect to its income taxes. The Company regularly reviews and evaluates the likelihood of audit assessments. The Company's federal income tax returns have been audited through 2013. The Company has not signed any consent to extend the statute of limitations for any subsequent years. The Company's significant state tax returns have been audited through 2009. The Company considers its significant tax jurisdictions in foreign locations to be the United Kingdom, Canada, France, Hungary, Italy and the Netherlands. The Company remains subject to examination in the United Kingdom for years after 2013, in Canada for years after 2013, in France for years after 2012, in Italy for years after 2012 and in the Netherlands for years after 2008.

In accordance with the guidance for accounting for uncertainty in income taxes the Company recognizes the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit of an uncertain tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount that is greater than 50% likely to be realized upon settlement with the tax authority. To the extent we prevail in matters for which accruals have been established or are required to pay amounts in excess of accruals, our effective tax rate in a given financial statement period could be affected. As of December 31, 2016 the Company had no uncertain tax positions. Interest and penalties, if any, are recorded in income tax expense. There were no accrued interests or penalty charges related to unrecognized tax benefits recorded in income tax expense in 2016, 2015 or 2014.

11. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

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

At December 31, 2016, the future minimum annual lease payments for capital leases and related and third-party operating leases were as follows (in millions):

	Capital Leases	Operating Leases	Total
2017	0.1	$ 23.0	$ 23.1
2018	0.1	21.1	21.2
2019	-	20.0	20.0
2020	-	16.6	16.6
2021	-	12.2	12.2
2022-2026	-	44.2	44.2
2027-2031	-	19.8	19.8
Thereafter	-	1.8	1.8
Total minimum lease payments	0.2	158.7	158.9
Less: sublease rental income	-	10.9	10.9
Lease obligation net of subleases	0.2	$ 147.8	148.0
Less: amount representing interest	0.0		
Present value of minimum capital lease payments (including current portion of $0.2)	$ 0.2		

Annual rent expense aggregated approximately $17.7 million, $26.4 million and $31.5 million in 2016, 2015 and 2014, respectively. Included in rent expense was $0.9 million in 2016, $1.0 million in 2015, $0.9 million in 2014, to related parties. Rent expense is net of sublease income of $0.4 million for 2016, $0.1 million for 2015, and $0.0 million for 2014, respectively. NATG operations annual rent expense totaled approximately $1.3 million, $10.7 million and $18.3 million for 2016, 2015 and 2014, respectively.

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

Other Matters

The Company and its subsidiaries are from time to time involved in various lawsuits, claims, investigations and proceedings which may include commercial, employment, customer, personal injury and health and safety law matters, as well as VAT tax disputes in European jurisdictions, and which are handled and defended in the ordinary course of business. In addition, the Company is from time to time subjected to various assertions, claims, proceedings and requests for damages and/or indemnification concerning intellectual property matters, including patent infringement suits involving technologies that are incorporated in a broad spectrum of products the Company sells or that are incorporated in the Company's e-commerce sales channels. The Company is also audited by (or has initiated voluntary disclosure agreements with) numerous governmental agencies in various countries, including U.S. Federal and state authorities, concerning potential income tax, sales tax and unclaimed property liabilities. These matters are in various stages of investigation, negotiation and/or litigation. The Company is also being audited by an entity representing 43 states seeking recovery of "unclaimed property". The Company is complying with the unclaimed property audit and is providing requested information. The Company intends to vigorously defend these matters and believes it has strong defenses.

Although the Company does not expect, based on currently available information, that the outcome in any of these matters, individually or collectively, will have a material adverse effect on its financial position or results of operations, the ultimate outcome is inherently unpredictable. Therefore, judgments could be rendered or settlements entered, that could adversely affect the Company's operating results or cash flows in a particular period. The Company regularly assesses all of its litigation and threatened litigation as to the probability of ultimately incurring a liability, and records its best estimate of the ultimate loss in situations where it assesses the likelihood of loss as probable and estimable. In this regard, the Company establishes accrual estimates for its various lawsuits, claims, investigations and proceedings when it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and the loss can be reasonably estimated. At December 31, 2016 the Company has established accruals for certain of its various lawsuits, claims, investigations and proceedings based upon estimates of the most likely outcome in a range of loss or the minimum amounts in a range of loss if no amount within a range is a more likely estimate. The Company does not believe that at December 31, 2016 any reasonably possible losses in excess of the amounts accrued would be material to the financial statements.

Following the previously reported independent investigation of Gilbert Fiorentino and Carl Fiorentino by our Audit Committee in 2011 (in response to a whistleblower report) for a variety of improper acts, the subsequent termination of their employment and the entering into by Gilbert Fiorentino of a settlement agreement with the Securities and Exchange Commission, on November 20, 2014 the United States Attorney's Office ("USAO") for the Southern District of Florida announced that Gilbert Fiorentino and Carl Fiorentino had been charged with mail fraud, wire fraud and money laundering in connection with a scheme to defraud the Company. Specifically, the charges set forth a scheme to obtain kickbacks and other benefits, and to conceal this illicit income from the IRS, all while Gilbert Fiorentino and Carl Fiorentino were employed as senior executives at the Company's NATG business. On December 2, 2014, the United States Attorney's Office announced that Gilbert Fiorentino and Carl Fiorentino had pled guilty to various charges, and on March 3, 2015, Gilbert Fiorentino and Carl Fiorentino were sentenced to sixty and eighty months' imprisonment, respectively. Following completion of their sentences, each is to be placed on supervised release for a period of thirty-six months. On March 1, 2016, the United States District Court for the Southern District of Florida awarded the Company approximately $36 million in restitution from Gilbert and Carl Fiorentino, which the Company will utilize all available means to collect. Judgment liens have been established on certain property and assets of each of Gilbert and Carl Fiorentino. The Company is working with the USAO to obtain forfeiture proceeds from the sale of certain seized assets. During the third quarter of 2016 the Company received a partial restitution payment of approximately $1.3 million. The Company is also continuing to seek a civil judgment against Carl Fiorentino.

The Company's Audit Committee, with the assistance of independent outside counsel, cooperated with a request by the USAO that it assist the USAO's investigation into allegations arising from the Fiorentino investigation regarding possible executive officer conflicts of interest and internal controls and books and records violations. The Company's Audit Committee, along with the Audit Committee's independent outside counsel, conducted an investigation of the allegations and its counsel presented the Audit Committee's findings to the USAO in July 2015. The Company was advised that the Audit Committee investigation found no evidence of executive officer conflicts of interest, and no material evidence of internal controls violations or books and records violations. The Audit Committee considers its investigation to be closed at this time and the Company has been advised there has been no further contact from the USAO. Notwithstanding, it is not possible at this time to predict if or when the USAO will conclude its investigation; what subject(s) will be investigated; what actions, if any, may be taken by the government as a result of its investigation; or whether any of these matters will have a material adverse impact on the Company .

12. SEGMENT AND RELATED INFORMATION

Since the December 2015 sale of the NATG business, the Company has operated and is internally managed in two reportable business segments— Industrial Products Group ("IPG") and EMEA Technology Products Group ("EMEA"). Smaller business operations and corporate functions are aggregated and reported as the additional segment - Corporate and Other "Corporate".

On September 2, 2016 the Company sold certain assets of its Misco Germany operations which had been reported as part of its EMEA segment. As this disposition was not a strategic shift with a major impact as defined under ASU 2014-08 , prior and current year results of the German operations are presented within continuing operations in the Consolidated Financial Statements. For the year ended December 31, 2016, net sales of Misco Germany included in continuing operations were $33.9 million and the net loss, including approximately $3.7 million of intercompany charges, was $6.4 million. The Company recorded charges related to this transaction of approximately $1.7 million.

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

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

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

	Year Ended December 31,		
	2016	2015	2014
Net Sales:			
IPG	$ 715.6	$ 698.6	$ 556.0
EMEA	960.9	1,052.9	1,189.9
NATG	-	97.8	352.4
Corporate and other	3.6	5.4	5.9
Consolidated	$ 1,680.1	$ 1,854.7	$ 2,104.2
Depreciation and Amortization Expense:			
IPG	$ 3.6	$ 3.8	$ 2.1
EMEA	3.4	3.9	4.0
NATG	-	0.6	4.1
Corporate and other	0.9	1.0	1.3
Consolidated	$ 7.9	$ 9.3	$ 11.5
Operating Income (Loss):			
IPG	$ 34.3	$ 43.7	$ 41.0
EMEA	(12.5)	(10.8)	(21.2)
NATG	(2.8)	(38.2)	(17.9)
Corporate and other expenses	(14.9)	(18.8)	(15.6)
Consolidated	$ 4.1	$ (24.1)	$ (13.7)
Total Assets			
IPG	$ 201.5	$ 175.3	$ 135.5
EMEA	274.6	238.3	313.3
NATG	6.9	26.6	187.6
Corporate and other	83.1	269.9	260.5
Consolidated	$ 566.1	$ 710.1	$ 896.9

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

	Year Ended December 31, 2016	2015	2014
Net Sales:			
United States	$ 692.3	$ 676.8	$ 723.2
France	417.2	382.6	383.2
United Kingdom	241.8	335.7	471.9
Other Europe	301.9	334.5	334.8
Other North America	26.9	125.1	191.1
Consolidated	$ 1,680.1	$ 1,854.7	$ 2,104.2
Long-lived Assets:			
United States	$ 15.4	$ 18.1	$ 17.1
United Kingdom	10.4	15.6	17.5
France	1.0	1.1	0.8
Other Europe and Asia	2.7	3.5	5.5
Other North America	-	-	0.3
Consolidated	$ 29.5	$ 38.3	$ 41.2

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

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016:				
Net sales	$ 429.8	$ 420.8	$ 414.8	$ 414.7
Gross profit	$ 83.4	$ 81.5	$ 78.1	$ 81.7
Net loss	$ (1.1)	$ (2.0)	$ (5.5)	$ 0.7
Net loss per common share:				
Basic	$ (0.03)	$ (0.05)	$ (0.15)	$ 0.02
Diluted	$ (0.03)	$ (0.05)	$ (0.15)	$ 0.02
2015:				
Net sales	$ 512.1	$ 454.1	$ 423.2	$ 465.3
Gross profit	$ 86.5	$ 87.0	$ 82.3	$ 86.9
Net (loss) income	$ (18.6)	$ (19.9)	$ 1.8	$ (11.6)
Net (loss) income per common share:				
Basic	$ (0.50)	$ (0.54)	$ 0.05	$ (0.31)
Diluted	$ (0.50)	$ (0.54)	$ 0.05	$ (0.31)

SYSTEMAX INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For the years ended December:
(in millions)

Description	Balance at Beginning of Period	Charged to Expenses	Write-offs	Other	Balance at End of Period
Allowance for doubtful accounts					
2016	$ 9.8	$ 4.6	$ (3.1)	$ -	$ 11.3[1]
2015	$ 6.5	$ 7.9	$ (4.8)	$ 0.2	$ 9.8
2014	$ 5.8	$ 8.9	$ (8.3)	$ 0.1	$ 6.5
Allowance for sales returns					
2016	$ 5.9	$ 2.4	$ -	$ (5.9) [2]	$ 2.4
2015	$ 9.3	$ 5.9	$ -	$ (9.3) [2]	$ 5.9
2014	$ 10.9	$ 9.3	$ -	$ (10.9) [2]	$ 9.3
Allowance for inventory returns					
2016	$ (4.9)	$ (1.6)	$ -	$ 4.9[2]	$ (1.6)
2015	$ (7.8)	$ (4.9)	$ -	$ 7.8[2]	$ (4.9)
2014	$ (9.2)	$ (7.8)	$ -	$ 9.2[2]	$ (7.8)
Allowance for deferred tax assets					
2016					
Noncurrent	$ 80.6	$ 9.4	$ (1.9)	$ 1.6	$ 89.7
2015					
Noncurrent	$ 48.8	$ 35.8	$ -	$ (4.0)	$ 80.6
2014					
Noncurrent	$ 39.7	$ 9.1	$ -	$ -	$ 48.8

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

Exhibit 10.22

Corvin Towers Ingatlanforgalmazó Korlátolt Felelősségű Társaság
as Landlord

and

Systemax Business Services Korlátolt Felelősségű Társaság
as Tenant

LEASE AGREEMENT

LEASE AGREEMENT

This lease agreement (this " **Lease** ") was made on the date and place written below between:

(1) **Corvin Towers Ingatlanforgalmazó Korlátolt Felelősségű Társaság** , a limited liability company incorporated and existing under the Hungarian laws, having its registered seat at 1082 Budapest, Futó utca 47-53., VII. em., Hungary; company registry number: 01-09-886907; tax number: 13849867-2-42; statistical code: 13849867-6810-113-01; hereinafter the " **Landlord** ";

and

(2) **Systemax Business Services Korlátolt Felelősségű Társaság** , a limited liability company incorporated and existing under the Hungarian laws, having its registered seat at 1124 Budapest, Csörsz u. 41., Hungary; company registry number: 01-09-994633; tax number: 24186906-2-43; statistical code: 24186906-8211-113-01; hereinafter the " **Tenant** "

each of the Landlord and the Tenant hereinafter referred to as a " **Party** " and together the " **Parties** ".

(A) The Landlord and Klepierre Corvin Vagyonkezelő Korlátolt Felelősségű Társaság (" **Klepierre** ") are owners of the property registered in the land registry under topographical lot number 36374 and located in the VIII th District of Budapest, Kisfaludy utca 33-38., in the ownership ratio of 5214/8690 and 3476/8690 and the Landlord and Klepierre own the property registered in the land registry under topographical lot number 36343/1 and located in the VIII th District of Budapest, Futó utca 37-45. as the Landlord having the ownership ratio of 2631/6577 and Klepierre having the ownership ratio of 3946/6577 of the property and the Landlord and Klepierre are jointly and severally entitled to the land use right of 1364 m^2 area of the territory registered in the land registry under topographical lot number 36368 and located in the VIII th District of Budapest, Vajdahunyad utca (hereinafter each a " **Plot** ", together the " **Plots** "). There have been two (technically and functionally unified) retail and office buildings built (the " **Building** " or the " **Buildings** ") on the Plots. The Building Department of the Municipality of the VIII th District has issued final and non-appealable occupancy permits under Nr. 08-108/33/2010 and 08-261/33/2010 in respect to both Buildings.

(B) The owners have established two condominiums in respect to the two Buildings (" **Corvin Átrium 109 Condominium** " and " **Corvin Átrium 113 Condominium** ") pursuant to the amended and restated condominiums' deeds of foundation executed on October 16, 2012. (" **Corvin Átrium 109 Deed of Foundation** " and " **Corvin 113 Átrium Deed of Foundation** "). The foundation of the condominiums has been registered into the land registry.

(C) Pursuant to Corvin Átrium 113 Deed of Foundation, the Office Building (as defined below) and the related parking lot have been registered as independent units under separate topographical lot numbers and exclusively owned by the Landlord or exclusively used by the Landlord as a common area.

(D) The Parties wish to enter into an agreement on the subject matter of the lease of the Office Premises, Storage Premises and Parking Spaces (as defined below) within the Office Building.

THEREFORE it is now agreed as follows:

1. Definitions

Wherever used in this Lease the capitalised terms and expressions shall have the meaning given thereto in this Section:

" **Bank Guarantee** " has the meaning as described thereto in Section 10.1;

" **Building Common Area Ratio** ” means the Tenant’s Proportion of the 162.15 m² part of the Common Areas marked in PURPLE on the floor plan attached hereto as Appendix No. 1, which shall increase the floorspace of the Office Premises calculated under Sections 3.2 as set out in Appendix 6/a.

" **Common Areas** " means the areas of the Office Building which the Landlord has not leased out, and does not intend to lease out, as Office Premises, Storage Premises, retail units or Parking Spaces for exclusive use and which serve to be used by and to service several or all the tenants in the Office Building. The Common Areas are marked in PURPLE on the floor plan attached hereto as Appendix No. 1.

" **Common Establishments** " means all the lifts, elevators, rubbish containers, Conducting Media, heating systems, air-conditioning, hot water supply and any other central equipment required for the operation of the Office Building which serves to supply several tenants of the Office Building;

" **Condominium** " means the Corvin Átrium 113 Condominium registered under topographical lot number 36343/1;

" **Condominium Common Cost** " means the cost to be paid by the Landlord and specified by the general assembly of the Condominium to cover the public utility charges of maintenance, operation, renewal and use of the common areas as defined in the Corvin Átrium 113 Deed of Foundation and By-Laws of the Condominiums excluding any amounts payable by the Landlord to the Condominium for allowing the use of the Premises by the Tenant hereunder which shall be exclusively borne by the Landlord, if any;

" **Conducting Media** " means all water pipes, sewers, chimney funnels, drains, pipes, gullies, gutters, ducts, air flues, servicing shafts, lift shafts, ditches, channels, conduits, wires, cables, mains, and any of such conducting media;

" **Consumer Price Index** " means the Monetary Union Consumer Price Index (MUICP) published by Eurostat in each month;

" **Control** " means having control of more than 50% of the votes on the members' meeting or general meeting of a company, whether directly or indirectly, and "Controlled by / Under the Control of" shall be construed accordingly;

" **Default Interest** " means the default interest payable if the Tenant fails to perform its obligation to pay the Fees or any other of its payment obligations or if the Landlord fails to perform its payment obligations under Section 5.2, for the period following the due date and the rate of the default interest shall be (i) in the case payments to be made in HUF the annual rate of interest set out in the provisions of the Civil Code on the rate of default interest applicable between companies, currently regulated in Section 301/A (2) of the Civil Code, or (ii) in the case payments to be made in EUR the annual rate of interest equal to 1.5 (one point five) times of the base rate of interest published by the Central Bank of European Union (ECB) from time to time;

" **Exclusively used Areas by the Tenant on the Floor** " means the premises forming a part of the Office Premises marked in BLUE on the floor plan attached hereto as Appendix No. 1;

" **Fees** " mean the Rent, Service Charge, Provisional Service Charge and the Supplementary Service Charge together;

" **Force Majeure** " means any circumstance which is beyond the reasonable control of the Parties (including, without limitation, any act of God, acts of war and/or terrorism and/or riots or orders of governmental or other statutory authorities) which prevents the Parties to this Lease or any one of them from performing their obligations under or resulting from this Lease, provided that such circumstance cannot be avoided despite the prudence, foresight and effort of the Party affected by such circumstance;

" **Hand-over Date** " means the date of signature of this Lease, including its 'Closing' Section by all Parties on which the Landlord hands over the all Premises to the Tenant, issuing a protocol in the form set out in Appendix No. 7/a;

" **Hand-over Protocol No. I** " has the meaning ascribed to this term in Section 6.8.

" **Hand-over Protocol No. II** " has the meaning ascribed to this term in Section 6.8.

" **Landlord** " means Corvin Towers Ingatlanforgalmazó Korlátolt Felelősségű Társaság , any person authorised to act for and on behalf of Corvin Towers Ingatlanforgalmazó Korlátolt Felelősségű Társaság or its legal successors and/or assignees in the event of assignment under Section 9.5 hereof;

“ **Landlord's Contribution** ” means the amount of 1,585,766 EUR + VAT to be utilized in accordance with Article 5 of this Lease and calculated in accordance with Appendix 2/d, for any items or work relating to the fit-out works of the Premises;

" **Lease** " means this lease agreement which includes any document supplementary, incidental and relating to this Lease agreed to by the Parties;

" **Lease Term** " has the meaning as described thereto in Section 4.2;

" **Leased Area** " means the floorspace of the Premises which shall be calculated in respect of the Office Premises and the Storage Premises under Sections 3.2 to 3.3 and increased with the Building Common Area Ratio in respect of the Office Premises, and which serves as a basis for the calculation of the Rent and the Service Charge as set out in Appendix 6/a of this Lease;

" **Manager** " means one or more specialised property management companies which the Landlord engages as a part of the services paid from the Service Charge so that they ensure the preventive and routine maintenance of the Office Building (including the Premises and the Common Areas) to be performed by the Landlord in accordance with Appendix 2/c and handle the Tenants' complaints, ensure security and clean the Common Areas, the Exclusively used Areas by the Tenant on the Floor etc;

" **Office Building** " means the Crystal Tower part of the office building located at H-1082 Budapest, Futó u. 45. being a part of Corvin Átrium 113 Condominium which comprises the Premises; any reference to the Office Building shall be construed as a reference to the whole or a part of the Office Building as required by the context;

" **Office Premises** " means the office premises for exclusive use as defined in Section 3.1 a) of this Lease together with the Exclusively used Areas by the Tenant on the Floor, the related service areas and passageways, terraces and other areas which the Tenant is entitled to use exclusively and which are marked in GREEN in Appendix No. 1 for identification purposes;

" **Parking Space** " means the parking spaces of the Separately Owned Office Parking Lot specified in Section 3.1.c) of this Lease and in Appendix No. 1 which the Tenant is entitled to use exclusively, and which are marked in YELLOW in Appendix No. 1 for identification purposes;

" **Parties** " means the Landlord and the Tenant and a "Party" shall mean any one of them;

" **Premises** " means the Office Premises, Storage Premises and Parking Spaces leased by the Tenant;

" **Provisional Service Charge** " means an advance payable by the Tenant in relation to the Service Charge (i.e. which is payable by the Tenant in the Tenant's Proportion) which the Landlord is entitled to fix unilaterally with respect to the relevant year until 31 January of each calendar year taking into consideration of the amount of anticipated costs in accordance with Section 12.4 hereof;

" **Rent** " means the rent payable for the use / occupation of the Leased Area for the Lease Term as provided for in Section 11;

" **Separately Owned Office Parking Lot** " means the unit of the Condominium registered independently under individual topographical lot number and situated on -4th floor of the Buildings;

" **Service Charge** " means the part payable by the Tenant in the Tenant's Proportion of the costs and expenditure actually incurred by the Landlord in relation to the operation, upkeep, management, administration, services, maintenance, insurance and public utility supply and any tax or related, analogous public liabilities of the Office Building both as an office building and as a unit of the condominium, including the Condominium's Common Cost as listed in column „Obligations of the Tenant Through the Service Charge" of Appendix 2/c and in Appendix 6/b;

" **Signage** " means corporate signboards, logos, name plates, promotional slogans, marks, lit-up signs, flash signal, placards, posters, billboards and advertisements etc , placed by the tenants of the Office Building, in relation to which the Landlord is entitled to set their size, colour, material, type, quality and the rules of their location in accordance with Section 7.16;

" **Storage Premises** " means the underground storage premises set out in Section 3.1.b) of this Lease, which the Tenant is entitled to use exclusively and which are marked in RED in Appendix No. 1 for identification purposes;

" **Supplementary Service Charge** " means the charge payable for the Supplementary Services from time to time;

" **Supplementary Services** " means the scope of services in relation to the operation, maintenance of the Premises suited to individual needs and supplementary services related to the Premises which are defined in Appendix No. 6/b;

" **Taxes** " have the meaning ascribed thereto in Section 12.12;

" **Technical Specifications** " means the description and the Execution Drawings set out in Appendix No. 2/a and Appendix No. 2/b of this Lease, containing the final technical conditions, specifications and requirements of the fit-out of the Office Building and the Premises negotiated and jointly agreed upon by the Parties;

" **Tenant** " means the tenant and any legal successor of the Tenant and/or assignees in the event of a permitted assignment of the Tenant;

" **Tenant's Proportion** " means the ratio i) of the Leased Area of the Office Premises to ii) the total area of the lettable units of the Office Building including the Leased Area of the Office Premises, where the total area of the lettable units of the Office Building including such Leased Area shall be 6876.45 m2

" **Variation Request** " has the meaning ascribed to such term in Section 5.3

" **VAT** " means the Value Added Tax or any other tax which is introduced as an analogous tax thereto.

2. Provisions of this Lease

2.1 In any case where the Tenant is placed under a restriction by reason of the covenants and conditions contained in this Lease, the restriction shall be deemed to include the obligation on the Tenant not to permit or allow the infringement of the restriction by any person claiming rights to use or visit the Premises through, under or in trust for the Tenant.

2.2 Where a Party signing this Lease in a contractual capacity is, or shall be, two or more persons, the expressions the "Tenant", the "Landlord" shall include the plural number and obligations in this Lease shall be imposed on such persons jointly and severally.

2.3 Any consent or approval of either Party under this Lease shall be obtained before the act or event to which it applies is carried out or done and shall be effective only when the consent or approval is given in writing.

3. Subject of this Lease

3.1 The Landlord leases out and the Tenant rents

(a) the Office Premises located on the 2nd, 3rd and 4th floor of the Office Building, edged in GREEN and BLUE in Appendix No. 1 for identification purposes for the purposes of an office with an overall Leased Area of 4749.46 m^2 calculated in accordance with Section 3.2 below;

(b) the Storage Premises for the purpose of office support located on the -4th floor (underground) of the Office Building, edged in RED in Appendix No. 1 for identification purposes with an overall Leased Area of 22,6 m^2 calculated in accordance with Section 3.3 below;

(c) 15 (fifteen) Parking Spaces for the purpose of parking located on the -4th floor (underground) of the Office Building, edged in YELLOW in Appendix No. 1 for identification purposes;

which serve to be exclusively used by the Tenant. For the avoidance of doubt the Parties set forth that (i) the Leased Area of the Premises set out in this Section 3.1 will not be deemed to change i.e. increase as a result of the fit out works, including but not limited to the external staircase, diesel generator, slab reinforcement for such generator and the server room made by the Tenant in accordance with Section 5.3 below, and (ii) such instalments serve to be exclusively used by the Tenant.

3.2 For the purpose of the calculation of the Leased Area of the Office Premises, the floor area shall include the area from the interior of the external bordering walls of the Office Premises (in the event of a parapet wall of a height less than 90 cm from the floor level, from the interior of the curtain glass wall or door or window) to the exterior of the internal bordering walls (if the neighbouring premises are leased, to the middle of such walls) **save for**

- the areas of structural components individually larger than 0.5m^2 (exterior and interior load-bearing walls, exterior perimeter walls, reinforcing walls, other supports and bearing, etc.);

- vertical passageways (lift shaft, flights of stairs, landing, landing upstairs or between floors, emergency balcony, underground ventilation shaft);

- Conducting Media not only servicing the Office Premises;

- all areas to which the Tenant has no unrestricted access (central engineering premises, public utility shafts, elevator machine rooms, fixing and installation premises, filling premises);

however **including** :

- service areas (e.g. archive above the street level, warehouse and storerooms above the street level, meeting room, conference room, training room; reception, waiting room, kitchenette, dining room, photocopy room, postroom, cloakroom, server room, UPS room, sanitary block, smoking place, resting room, surgeon's office, cleaning cupboard, security service, rubbish container);

- passageways (e.g. windbreaker, hallway, corridor, lobby, foyer in front of the lifts);

- Conducting Media, boxes, shafts, pits, pipe strings, electronic cupboards, built-in cupboards built in upon the Tenant's request;

- areas occupied by the components of the supporting structure individually not exceeding 0.5m^2 each (e.g. pillars, column);

- load bearing pillars not exceeding 0.5 m^2 and walls inside the Office Premises and the interior plaster wall and other surfaces of the bordering walls of the Premises;

- entirety of the non-load-bearing walls inside the Office Premises, doorframes, glass walls;

- all Conducting Media inside the Office Premises and exclusively serving the Office Premises;
- areas under heating and cooling equipment;

The Leased Area of the Office Premises measured as described above shall be increased with the Building Common Area Ratio so that the Rent, Service Charge and Provisional Service Charge can be calculated as shown in Appendix 6/a.

3.3 When calculating the Leased Area of the Storage Premises, the Parties shall measure the floor space from the interior of the exterior bordering walls of the Premises to the exterior of the internal bordering walls (to the middle line if there are adjacent premises).

3.4 In the case of the Parking Spaces, the Leased Area shall be determined according to their number.

3.5 The Landlord represents and warrants that the Leased Area of the Premises indicated in Section 3.1 above are identical to the result of the measurement as set out in Section 3.2-3.3 above.

3.6 The Tenant has the possibility to rent additional parking spaces on a temporary basis under a separate agreement in addition to the Parking Spaces specified in Section 3.1.c) if there are free spaces available in the Office Building.

4. Term of this Lease and the Lease Term

4.1 This Lease enters into force and effect on the day on which it is duly signed by both Parties.

4.2 The Lease Term in relation to the Premises means a period starting on 1 April 2013 and expiring after 10 years on the 31 March of 2023 (hereinafter referred to as the " **Expiry Date** ").

4.3 The Parties undertake to conduct bona fide negotiations at least six (6) months prior to the expiry of the Lease Term to extend the Lease Term on mutually acceptable terms and conditions. For the avoidance of doubt, the Parties shall not be obligated to agree an extension to the Lease Term and the aforementioned bona fide negotiations shall only take place where the Tenant is actually desirous of extending the Lease Term, and has issued a written notice to the Landlord to this effect at least six (6) months prior to the expiry of the lease Term.

4.4 The Tenant may use the Premises in accordance with the terms of this Lease from the Hand-over Date until the Expiry Date unless extended by the Tenant in accordance with Section 4.3 above as provided for in this Lease.

5. Co-operation of the Parties during Fit-out Works

5.1 Landlord hands over all Premises in "as is" condition as recorded in the Hand-over Protocol No. I. Parties agree that Tenant shall fit out turn-key Office Premises and Storage Premises suitable for their intended purposes in accordance with the execution drawings (**"Execution Drawings"**) and Technical Specifications set out in Appendices 2/a-b. and the applicable Hungarian regulations and the House Rules as in Appendix 8. The Tenant hereby confirms the receipt of the approved Execution Drawings provided both in hard copy and in electronic format. Landlord represents and warrants that by signing this Lease the Tenant shall acquire all transferable intellectual property rights in respect of the Execution Drawings including but not limited to the right to use, reproduce, amend, and/or publish. Landlord represents and warrants that the Execution Drawings are in compliance with effective and/or announced Hungarian laws and regulations. It is hereby agreed that all authorities' permits, such as building permits and occupancy permits, have to be obtained by the Tenant at its own cost and risk. The Landlord shall co-operate with the Tenant at Tenant's cost and risk and shall provide the Tenant with any assistance reasonably necessary in order to obtain such permits. The Landlord shall hand over the material and equipment listed in Appendix 2/d to Tenant upon its request.

5.2 Taking into account Section 5.1 above, the Landlord hereby orders from Tenant and the Tenant hereby undertakes to perform the works necessary in order that the Office Premises and the Storage Premises may be suitable for the Tenant's intended purposes up to the amount of the Landlord's Contribution as follows:

(a) The Parties hereby acknowledge and confirm that the Landlord's Contribution has been partly spent by the Landlord in connection with the planning and preparation of the premises as set out in more details in Appendix 2/d. Accordingly the remaining balance against the Landlord's Contribution as at the date of execution hereof is EUR 1,330,184+VAT.

(b) The Tenant shall submit its invoice to the Landlord on the costs incurred by the Tenant in respect of each item of any works performed and delivered by it related to the Office Premises and the Storage Premises attaching the copy of invoices on such costs. The Landlord shall pay the invoices (including pro-forma invoices) of the Tenant to the bank account designated by the Tenant for this purpose within 30 days from the receipt of the invoice.

(c) Should the Landlord fail to pay, for any reason other than attributable to the Tenant, any amount invoiced by the Tenant under this Section 5.2 by the due date for payment, it shall (I) pay interest equal to the Default Interest from the due date until the outstanding amount is paid to the Tenant and (II) defend and hold the Tenant harmless from any claims of the subcontractors against the Tenant arising out of the late payment of the Tenant's invoices by the Landlord under this Section 5.2.

(d) All other amounts incurred by the Tenant in connection with the works related to the Premises shall be paid by the Tenant above the amount of the Landlord's Contribution.

(e) The Tenant shall be entitled to submit its invoices to the Landlord under this Section 5.2 following delivery of the Bank Guarantee and until 31 December 2013 and the Landlord shall not be obliged to pay any invoices of the Tenant submitted following 31 December 2013 or earlier exceeding the Landlord's Contribution.

5.3 The Parties agree that the Tenant is entitled to deviate from the Technical Specifications as well as from the Execution Drawings with the Landlord's prior written approval not to be unreasonably withheld or conditioned. The Landlord shall respond to the written request (" **Variation Request** ") of the Tenant for the Landlord's approval within 3 working days of the receipt of the Variation Request together with the amendments to the relevant parts of Execution Drawings and the Technical Specification. Should the Landlord fail to respond the Variation Request within the given deadline, the Landlord's approval to the Variation Request shall be deemed to be granted. Notwithstanding the foregoing the Parties agree that with regards to installing an external staircase, diesel generator, slab reinforcement for such generator and server room the Landlord may not deny its approval to the Variation Request unless in the reasonable opinion of the Landlord the instalment of such works are not in compliance with the applicable Hungarian regulations and/or may cause significant damage to the Office Building. The Parties agree that the Tenant shall not be obliged to remove and/or reinstall the external staircase, diesel generator, slab reinforcement for such generator and the server room in case of the termination of this Lease (howsoever arising).

5.4 The Tenant shall be responsible for installing the phone and computer network at its own expense and installing and maintaining any equipment specifically installed by the Tenant without the Landlord's approval.

5.5 The Landlord shall hire a technical supervisor (**"Technical Supervisor"**) to ensure quality, and that all health and safety requirements (" **Requirements** ") are met in accordance with Section 5.1. The Tenant shall provide all necessary information to the Technical Supervisor upon receipt of a reasonable request for such information during and after the fit-out works carried out by Tenant. The Technical Supervisor will report to the Landlord on a regular basis and will issue a warning to the Tenant if the Requirements are not met or unapproved fit out works are carried out and the Tenant has to respond within 1 day to the Landlord. For the avoidance of doubt the Tenant shall not be obligated to remedy any such issue in regards the Requirement or unapproved fit-out works within 1 day. The Parties shall negotiate in good faith a reasonable period of time from receipt of a warning from the Technical Supervisor during which the Tenant shall have to remedy any of the aforementioned issues in regards the Requirements or any unapproved fit-out works. The Technical Supervisor has the right to terminate all fit-out works if the Requirements are violated and not remedied within the time period agreed between the Parties but 15 days at the latest after the warning has been issued, unless the Parties agree otherwise. The Landlord and Technical Supervisor have a right to enter into the Premises at any time during the fit-out works. All costs and damages incurred as a result of such deviation from the Requirements shall be the Tenant's responsibility.

5.6 Any installation of equipment by Tenant which is related to, or affects the operation of Office Building's central fire alarm system, fire detection system, Building Management System, CCTV, Intruder Alarm System and Access Card System may only be carried out by Unielektro Biztonságtechnikai Kft.| (H-1075 Budapest, Károly krt. 13-15.) or any other contractor approved by the Landlord on the basis of the detailed Execution Drawings approved by the Parties. For the avoidance of doubt, the Tenant shall have the right to select its own suppliers, subcontractors etc. in respect of any other works (including the approved fit-out works) without the prior approval of the Landlord.

5.7 The Tenant shall be responsible for all damage or loss caused to the Office Building, the Condominium and the Common Establishments by it, its employees, subcontractors, suppliers or any third party instructed or engaged by the Tenant in the course of fit-out works, moving materials in and out of the Premises, as well as securing and guarding the Premises during such works.

5.8 The Tenant shall notify the Landlord in writing 5 days prior to the start date of the fit-out works including any requirements it has in regards storage of any material or security of the premises. The Tenant shall also notify the Landlord in writing 5 days prior the finish date of the fit-out works which cannot be later than 31 March 2013 in respect of the Office Premises other than those located on the 2nd floor of the Office Building and 31 March 2014 in respect of Office Premises located on the 2nd floor of the Office Building so that the Landlord can take a status report on the completion of the fit-out works of the respective Premises (" **Status Report** ") that shall be attached as Appendix 7/c and serves as the base document of the return of the Premises as in Section 7.7. The Parties agree that any delay in the respective finish date of the fit-out works by the Tenant (provided that such delay does not exceed 90 days) shall not constitute a breach of this Lease and Tenant shall have no liability to Landlord except for the payment obligations of the Tenant under Sections 11.1 and 12.6 below.

5.9 Tenant shall provide all documentation, including manuals, proofs of origin, maintenance protocols in Hungarian language as well as the effective execution drawings (if changed or altered from the ones Landlord provided as Execution Drawings) in electronic dwg and pdf formats upon taking of the Status Report.

6. Hand-over Date

6.1 The Landlord shall deliver the Premises to the possession of Tenant on the Hand-over Date. The Landlord hereby warrants that the Building Department of the Municipality of the VIII th District has issued final and non-appealable occupancy permits under Nr. 08-108/33/2010 and 08-261/33/2010 in respect to both Buildings.

If owing to the activities of the Tenant, the Tenant may only start its activity in the Premises in possession of an operation licence, it shall be the Tenant's duty to obtain the operation licence. Any delay that may arise in relation to the obtainment of the operation licence for any reason not attributable to the Landlord shall not affect the payment obligation of the Tenant arising under this Lease.

6.2 Intentionally omitted.

6.3 Intentionally omitted.

6.4 From the Hand-over Date the Tenant shall observe the rules and regulations related to the use of the Premises, including without limitation Appendix No. 8.

6.5 Intentionally omitted.

6.6 Intentionally omitted.

6.7 The Parties shall confirm the hand-over of the Premises by signing the hand-over protocol issued in the form attached hereto (" **Hand-over Protocol No. I** "). Upon the return of the Premises the Parties shall confirm the hand-over by signing the hand-over protocol issued in the form attached hereto (" **Hand-over Protocol No. II** ").

6.8 Hand-over Protocol No. I and Hand-over Protocol No. II shall be attached hereto as Appendix No. 7/a and Appendix No. 7/b

7. Use of the Premises

7.1 The Landlord warrants that if the Tenant performs its obligations arising under this Lease, the Tenant may use the Premises lawfully and without disturbance during the Term for purposes suited to their functions without any interference from the Landlord or any third person acting for and on behalf of the Landlord. Furthermore the Landlord warrants that in respect of the Premises there is no such third party right that would prevent the Tenant from the unfettered exercise of its rights arising under this Lease.

7.2 However the Landlord does not warrant that under the relevant laws the Premises can be used for any other purpose to which the Tenant only requests the Landlord's consent later.

7.3 The Tenant agrees to use the Premises with due care and prudence and in accordance with the House Rules detailed in Appendix No. 8 and the reasonable directions of the Landlord. The Premises may only be used by the employees, guests, clients and customers of the Tenant and shall not be open to the public.

7.4 The Tenant shall only use the areas defined in Section 3.1 for purposes suited to their functions and the Tenant and its sub-tenants may only utilise them for purposes suited to their functions.

7.5 The use of the Premises may only be changed subject to the prior written consent of the Landlord and with the approval of the competent authorities and the Tenant shall procure at its own cost that these consents are obtained and remain in effect. Should any change in the use of the Premises by the Tenant increase the Taxes and public liabilities payable in relation to the Office Building or the Condominium or the insurance premium of the Office Building or the Condominium or should it result in the introduction of new taxes, then the Landlord is entitled to charge the Tenant such public liabilities, taxes or the amount of the increase in the insurance premium fully in the Service Charge provided that the Landlord informed the Tenant on such circumstances in advance.

7.6 The Tenant may, at its own risk, install phone lines, radio or television sets, printers, any network, IT equipment and other technical apparatus and furniture in the Premises and make any decoration without the prior consent of the Landlord. Prior written consent shall only be necessary if the installation of technical apparatus and furniture or the performance of decoration works affects the Common Areas and the Common Establishments or would cause significant damage to the Office Building or any part thereof or would jeopardise or disturb the use of the Office Building for its intended purpose for any reason.

7.7 Save as provided for in the Execution Drawings, Sections 5.3 and 7.6, the installation of fixtures and fittings into the Premises shall be subject to the prior written consent of the Landlord, in which consent it shall be provided for what will happen to such works, built-in equipment, fixtures and fittings and materials, including their removal or ownership upon the termination of the Lease. In relation to fit-out works carried out by the Tenant in accordance with the Execution Drawings and Section 5.3 the Tenant shall not be obliged to remove and/or reinstall any fixtures and fittings and equipment set forth in the Execution Drawing and Section 5.3 in case of the termination of this Lease (howsoever arising). In the course of such works being completed at the Premises, the relevant labour safety and fire protection rules shall be fully observed and it shall be the Tenant's responsibility to observe and comply with all relevant laws and the Landlord shall not be liable for the consequences arising from the breach of such laws and rules by the Tenant.

7.8 During the mounting and/or installation the Tenant is obliged to follow the Hungarian laws and regulations, standards and norms concerning such equipment or fixtures and fittings. The Tenant may not build in or install any equipment, fixtures and fittings or materials which are not in conformity with the said rules and/or which may jeopardise the Office Building or the Condominium or the use thereof for their intended purpose or the quite enjoyment thereof. Before installing any equipment that would mean loading in excess of 5 KN/m^2, the Tenant shall hold prior consultations with the Landlord as to the place of installation of the equipment.

7.9 If the Tenant does not perform any of its obligations set out above, the Landlord is entitled to request that the Tenant should immediately remove any equipment or fixture built-in in breach of this Lease. If the Tenant fails to perform this request, this shall be deemed to be a serious breach and the Landlord is entitled to remove the equipment or fixture at the Tenant's expense and/or terminate this Lease. The Parties agree that this Section 7.9 shall not apply in the event of a breach on the part of the Tenant if it does not result in any damage to the Office Building and does not limit the operation of the Office Building by the Landlord and does not result in a disturbance of the use of the Office Building by other tenants.

7.10 If due to the Breach by the Tenant of its obligations under Section 7.9 above, an authority imposes a fine or prohibits using the whole or any part of the Condominium or Office Building for the future, or the authority imposes an obligation on the Landlord or any other owner of the Condominium or prohibits the Landlord from anything or requires the Landlord to provide anything, the Tenant is obliged to comply with this obligation immediately and is obliged to compensate the Landlord or any other owner of the Condominium against any fine, damage, claim enforced against the Landlord or any other owner of the Condominium and/or any other costs incurred in the course of such proceedings.

7.11 The Tenant shall be liable for all damage or loss caused by it or by its employees, visitors, customers, clients, suppliers, contractors, or any third party engaged or instructed by the Tenant, to the Premises. It is agreed that any person, other than the Tenant’s employees invited to and/or let in the Premises by the Tenant shall be deemed to be a visitor. The Tenant shall be responsible for all damage or loss caused to the Office Building, the Condominium and the Common Establishments by it, its employees, guests, clients, customers, in particular suppliers or contractors or any third party engaged or instructed by the Tenant in the course of moving in to or out of the Premises.

7.12 The Landlord shall not be responsible for causing any damage or loss or inconvenience to the Tenant which the Tenant has suffered due to the suspension of the service or public utility supplies which is not within the scope of responsibility of the Landlord under the applicable law(s) and/or this Lease or on a temporary basis, or which arises due to Force Majeure. A defect is deemed to be "temporary" if its duration does not exceed one (1) business day / per event or eight (8) days / per calendar year provided in each case that the Landlord has informed the Tenant in writing on such suspension of services or utilities as soon as it becomes or should have become aware of the suspension. In such a case the Landlord shall use its best efforts to repair the defect. For any other case of the suspension of the service or public utility supplies Section 16.11 and/or if applicable Section 16.7 shall apply.

7.13 The Landlord reserves the right for free and uninterrupted passage of water, steam, sewage, air, gas, electricity, data transmission cables and telephone from and to any part of the Office Building through the Conducting Media used generally in the Office Building which are now upon or under the Premises subject to not limiting the Tenant's public utility capacities (including the aforementioned services in this Section 7.13) granted at the commencement of this Lease.

7.14 The Landlord shall not be responsible for any damage caused to or the loss or destruction of assets and things owned by the Tenant or brought onto or placed in the Premises, the Office Building or the Condominium by third parties unless the same has been caused by the Landlord or any employee, agent, or sub-contractors of the Landlord.

7.15 The Tenant agrees to observe the House Rules included in Appendix No. 8 to this Lease and all amendments thereto (if any) and cause the same to be observed. The Landlord reserves the right to implement reasonable changes and amendments to the House Rules in order to maintain the good working order of the Office Building but if any amendment to the House Rules is in conflict with or inconsistent with this Lease, then the provisions of this Lease shall prevail in respect of the Tenant.

7.16 The Landlord reserves the right to set requirements for the uniform size, quality and material of the corporate signboards displayed by the Tenant in the ground floor lobby. The Landlord permits the Tenant to display one (1) Signage per floor in the Common Areas on each floor rented by the Tenant.

The Tenant is only permitted to display any Signage or any other object influencing the appearance of the Office Building on the exterior, at the entrance, on the windows of the Premises or any part of the Premises or the Condominium visible from outside with the prior written consent of the Landlord. The Landlord hereby gives its consent to the Tenant placing Signage at any two of the places as indicated by arrows in Appendix No. 9.

The Tenant may only put up signs as provided for in this Section and in Appendix No. 9.

<u>8. Maintenance and Repair of the Premises</u>

8.1 The Tenant agrees to preserve the condition of the Premises at its own expense as it is described in the relevant Status Report beyond normal wear and tear, it shall in particular perform at its own costs the tasks listed in column „Obligations of the Tenant Directly” in Appendix No. 2/c.

8.2 The Tenant shall keep the inside paintwork tidy and protect it beyond normal wear and tear. This obligation includes any enhancements and additions to the Premises and to any other kind of the fixtures and fittings of the Landlord built in the Premises. Definitions of maintenance and repair jobs to be performed by the Tenant shall be included in column „Obligations of the Tenant Directly” in Appendix No. 2/c.

8.3 Intentionally omitted.

8.4 The Landlord and/or the Manager is entitled to request the Tenant by registered mail to make all maintenance and repairs which belong to the Tenant's scope of duties under this Lease and which the Landlord and/or the Manager acting reasonably deems necessary to perform. The Tenant shall begin carrying out such repairs within a reasonable period of time but within not more than thirty (30) days of the receipt of the mail. If the Tenant fails to fulfil its obligation under this Section 8.4, the Landlord and/or the Manager is entitled to enter the Leased Premises and cause the necessary works to be carried out at the Tenant's expense by giving at least 8 days prior written notice.

8.5 The Tenant shall comply in all respects with all provisions of the law and regulations of any competent authority relating to the Office Building or activities carried out in the Office Building by the Tenant. The Tenant shall indemnify the Landlord against all actions, proceedings, claims or demands which may be brought or made by reason of any breach of the Tenant of such provisions.

8.6 Save as provided for in the Lease (including the applicable appendices) without the prior written consent of the Landlord, no alterations may be made to the Premises. Unless otherwise agreed by the Parties, the Tenant shall carry out such alterations proposed by it at its own expense and risk. It shall also be the Tenant's obligation to obtain all official permits, licences and approvals necessary for the implementation of the alterations.

8.7 The Landlord and/or the Manager shall maintain the Office Building, Common Establishments and Common Areas appropriately and perform its obligations set out in Appendix No. 2/c. The definition of maintenance and repair jobs to be performed by the Landlord and/or the Manager shall be included in Appendix No. 2/c.

8.8 The Parties expressly agree that the Landlord and/or the Manager shall be responsible to make all and any repairs defined as one falling within the Landlord's and/or the Manager's scope of responsibility in Appendix No. 2/c

8.9 If in the course of the repairs made upon the Tenant's instruction at the Tenant's expense or in the course of the works carried out or caused to be carried out by the Landlord and/or the Manager in place of the Tenant which would have been the Tenant's duty (in this Section 8.9 „Initial Repairs"), any defect occurs, the Landlord is obliged to repair the defects of such Initial Repairs at its own expense provided that the Tenant has fully reimbursed the Landlord for the cost of the Initial Repairs.

8.10 The Tenant is obliged to notify the Landlord and/or the Manager promptly becoming aware of any necessary repairs that are within the Landlord's and/or the Manager's scope of responsibility. If the Tenant fails to give such notice, the Tenant shall be made responsible for any loss or damage arising as a result of the failure to perform this obligation. The Landlord and/or the Manager agrees to take the measures with due care that may be necessary to perform the repairs of which the Tenant has given appropriate and prompt notice.

8.11 The Landlord and/or the Manager is entitled to carry out any such structural or material alteration inside or outside the Premises upon eight (8) days' notice prior to the commencement of the works that is necessary to maintain or duly operate the Office Building, the Condominium, the Common Areas or Common Establishments. However, the works shall be performed without materially disturbing or disrupting the Tenant's use of the Premises for their intended purpose and shall not cause any unnecessary inconvenience or disturbance to the Tenant's activity during working hours.

8.12 Before the commencement of any maintenance works, repairs and renewal, including any works required to the services listed in Section 7.12 above, the Landlord shall give the Tenant eight (8) days' prior written notice of the services that will be suspended for the time being for the duration of such works. However, the works shall be performed without materially disturbing or disrupting the Tenant's use of the Premises for their intended purpose and shall not cause any unnecessary inconvenience or disturbance to the Tenant's activity. No written notice is necessary in the event of an emergency or a threat of further damage.

8.13 The Tenant shall be obliged to designate persons who shall co-operate with the Landlord and/or the Manager and in whose presence alterations may be carried out. If the Tenant fails to designate such persons within three (3) days, the Landlord and/or the Manager shall have the right to enter the Premises at a time previously indicated without the consent of the Tenant. No such notice is required in case of emergency or a threat of further damage.

8.14 The Landlord and/or the Manager or their respective authorized representative shall be entitled to check during normal business hours whether the Premises are in a good condition and to visit the Premises together with prospective new tenants twelve (12) months prior to the expiry of this Lease provided that it sends two (2) business days' prior written notice and shall procure that such visits shall not hinder materially the Tenant's use of the Premises for their intended purpose and unnecessarily disturb the normal course of business of the Tenant.

8.15 If this Lease terminates or expires for any reason, the Parties shall jointly issue Hand-over Protocol No. II in respect of the Premises upon the return of the Premises. In Hand-over Protocol No. II the Parties record the works to be performed in order to restore the condition of the Premises as it was recorded in the Status Report, save for normal wear and tear and any alterations made by the Tenant as set out in Section 5.3 and the Execution Drawings or in relation to which the Landlord has released the Tenant from the obligation to restore the original condition (" **Restoration Works** ") under this Lease. Parties agree that upon the request of the Tenant they shall conduct bona fide negotiations prior to the termination or expiry of the lease on the costs of the Restoration Works and the performance of the Restoration Works by either the Tenant or the Landlord on the agreed costs (if applicable), and any such agreed Restoration Works and the costs associated with such works shall be set out in writing.

8.16 Save as provided in Section 7.7, (i) the Tenant agrees to return to the Landlord the Premises with vacant possession and perform the agreed Restoration Works prior to the date of termination or expiry of this Lease and (ii) the Tenant shall be obliged to remove its equipment, fixtures and fittings that can be removed without causing structural damage to the Premises, unless otherwise agreed with the Landlord in accordance with Section 7.7..

8.17 Unless otherwise agreed by the Parties, any works or alterations which cannot be removed without structural damage shall be transferred to the property of the Landlord without any claim for damages or indemnification.

8.18 After the termination of this Lease for any reason, the Tenant is not entitled to claim to be located elsewhere or claim replacement premises from the Landlord.

8.19 Upon the termination of this Lease, the Tenant shall surrender each key, each element of the relating entrance system and entrance card to the Landlord. If the Tenant fails to perform this obligation until the termination date of this Lease, the Landlord is entitled to replace all locks at the Tenant's expense.

9. Sub-lease, Assignment

9.1 With the prior written consent of the Landlord the Tenant may sub-let the whole or any part of the Premises. The consent of the Landlord may not be unreasonably withheld, delayed or conditioned. The Landlord shall respond to any request for this purpose within thirty (30) days of the submission of such request. In case the Landlord does not respond to such request of the Tenant within 30 days, the Tenant shall serve an 8 day notice to Landlord. Should the Landlord not respond to the request of the Tenant within 8 days from the receipt of the Tenant's notice, the consent of the Landlord to the sub-lease shall be deemed to have been given. Notwithstanding the above, the Tenant may sublet the whole or any part of the Premises to any company which is Controlled by the Tenant or which Controls the Tenant without the prior consent of, but upon prior written notice to, the Landlord.

9.2 The sub-tenant shall comply with the provisions of this Lease fully. The Tenant shall be responsible to the Landlord for ensuring that each sub-tenant complies with the provisions of this Lease. The Tenant shall deliver the Landlord the sub-lease agreement for approval before its execution or if it is amended, before the execution of the amendment (and the Landlord's approval shall not be unreasonably withheld or delayed to such sub-tenancy agreement).

9.3 The term of the sub-lease may not exceed the period remaining from the Term at the date of execution of the sub-lease agreement. It is understood that the termination of this Lease for any reason shall automatically result in the termination of the sub-lease agreement(s) and the Tenant shall provide for this in the sub-lease agreement.

9.4 The Tenant may only transfer its rights and obligations under this Lease to any third persons in respect of a part or the whole of the Premises with the prior written consent of the Landlord.

9.5 The Landlord may transfer its rights and obligations arising under this Lease to any third person with prior notice to, but without the consent of, the Tenant. Any notice of transfer given by the Landlord to the Tenant shall mean that the Landlord waives all its rights and obligations under this Lease. Upon the Landlord's request the Tenant shall confirm in writing that it has acknowledged the transfer of rights and/or obligations by the Landlord.

9.6 The Landlord is entitled to sell, encumber or mortgage the Premises and the Property including the Premises without prior notice to, and without the prior consent of the Tenant provided that this does not prevent the Tenant from using the Premises for their intended purpose.

9.7 The Tenant has no pre-emption or right of first refusal in respect of the Office Building, the condominium unit or the Property.

10. Bank Guarantee / Security Deposit

10.1 To secure the performance of the Tenant's payment obligations under this Lease, including the Rent, the Provisional Service Charge and other Fees and the obligation to reimburse expenses and pay indemnity or damages, the Tenant shall provide to the Landlord an unconditional and irrevocable bank guarantee issued by HSBC Bank Luxembourg or any other bank previously accepted by the Landlord in the amount set out in Section 10.2 and 10.3 substantially in form and content as provided in Appendix No. 3. (" **Bank Guarantee** ") or provide the Landlord with a security deposit in the same amount as a security deposit (" **Security Deposit** "). Any interest payable on the Security Deposit shall be due to the Landlord.

10.2 The Tenant shall provide the Bank Guarantee or Security Deposit to the Landlord within fifteen (15) calendar days of the execution of this Lease in the amount set out in Appendix 6/c Phase(1) Section. If the Tenant fails to perform its obligation to provide the Bank Guarantee or the Security Deposit, the Landlord is entitled to cancel this Lease, in which case Section 16.6 shall apply.

10.3 Parties agree that the amount of the Bank Guarantee or Security Deposit shall be increased by the amount set out in Appendix 6/c Phase(2) Section and by 31 March 2014 the Tenant shall provide a new Bank Guarantee on this amount. It is further agreed that the amount of the Bank Guarantee or Security Deposit shall be increased according to the rate of adjustment to the Rent from time to time and the amount of the Provisional Service Charge specified by the Landlord. The Tenant shall deliver to the Landlord the necessary supplement to the Bank Guarantee or Security Deposit within fifteen (15) days of the receipt of the notice of the adjustment as prescribed in Section 13 of this Lease and the modification to the Provisional Service Charge under Section 12.4. failure to do so shall qualify as material breach of contract.

10.4 The Bank Guarantee or Security Deposit shall be valid until the Expiry Date (unless the term of the lease is extended in accordance with Section 4.3) plus sixty (60) more days. If the Tenant fails to perform or delays performing, or fails to fully perform any of its payment obligations set out above and in this Lease, the Landlord is entitled to draw down the amount of the Bank Guarantee or satisfy its claim from the Security Deposit. If the Landlord is entitled to draw down the amount of the Bank Guarantee as provided for above, it may draw it down with 8 days' prior written notice to the Tenant, directly contacting the issuing bank. The Tenant acknowledges that the issuing bank performs the Landlord's draw-down request without making any enquiry about the underlying legal relationship. The Landlord shall give back the Bank Guarantee or the actual balance of the Security Deposit within 30 days from the termination of this Lease, if the Tenant has fulfilled its obligations under this Lease. In case the Landlord has any outstanding undisputed receivable against the Tenant, the amount of the proved outstanding undisputed receivable can be deducted from the Bank Guarantee or the Security Deposit.

10.5 If the Bank Guarantee is drawn down or the Security Deposit is utilised, the Tenant shall replenish the Bank Guarantee or Security Deposit within fifteen (15) days up to the amount set out in this Lease. If the Tenant fails to meet this obligation, this shall constitute a serious breach because of which the Landlord is entitled to terminate this Lease.

10.6 If the term of the Bank Guarantee is shorter than the term under Section 10.4 above, or the Bank Guarantee is revoked by the issuing bank, the Tenant shall provide the Landlord with a new Bank Guarantee before not less than fifteen (15) business days of the expiry of the Bank Guarantee or the expiry date of the notice period of the revocation and the term of such Bank Guarantee may not be shorter than the day falling a year after the expiry date of the former Bank Guarantee unless the expiry date set in accordance with Section 10.4 occurs sooner. If the Tenant fails to provide the new Bank Guarantee to the Landlord by this time, the Landlord may draw down the valid Bank Guarantee in full, and hold the amount drawn down as a Security Deposit until the Tenant provides the Landlord with an appropriate new Bank Guarantee, which shall from then on function as the Bank Guarantee.

11. Rent

11.1 The Tenant shall pay a Rent for the occupation of the Premises provided in Rent (1) section of Appendix 6/a from 1 April 2013 until 31 March 2014.

The Tenant shall pay a Rent for the occupation of the Premises provided in Rent (2) section of Appendix 6/a from 1 April 2014 until the expiry or the termination of this Lease. In case of an extension of the Lease in accordance with Section 4.3 the Rent corresponding to the Premises in respect of which the Lease Term is extended, shall be payable.

11.2 The base for the calculation of the Rent shall be the Leased Area which, for the avoidance of doubt, is increased with the Building Common Area Ratio in relation to the Office Premises as provided in Appendix 6/a. The amount and due date of the Rent shall be independent of the extent of utilisation of the Premises by the Tenant save for the events set out in Section 16.7 (b), 16.8 (b) and 16.11 when the Premises or any part thereof is/are not suitable to be used for their intended purpose.

11.3 The Rent for the Leased Area of the Office Premises shall be 13.5 EUROS + VAT/square metre/month.

11.4 The Parties agree that in respect of the 4th and 3rd floors of the Leased Area of the Office Premises the Landlord shall grant a discount of 6.75 EUROS/square meter/month from the Rent (11.3) set forth in this Lease from 1 April 2013 until 31 March 2014.

11.5 The Landlord shall indicate the discount given by it for the relevant period in the invoice issued by it.

11.6 The Parties represent that they took into consideration the rate of the discount described above when agreeing on the commercial terms and conditions of this Lease and the discount fundamentally influenced the Tenant's decision to rent the Premises offered in the Office Building.

11.7 The Rent for the Storage Premises shall be 6.5 EUROS + VAT/square metre/month.

11.8 The Rent for the Parking Spaces shall be 90 EUROS + VAT/parking space/month.

11.9 Intentionally omitted.

12. <u>Service Charge, Supplementary Service Charge</u>

12.1 The Tenant shall pay the Service Charge required for the operation of the Office Building and the Supplementary Service Charge connected to the Premises.

The column „Obligations of the Tenant Through the Service Charge" in Appendix No. 2/c and Appendix No. 6/b to this Lease list the scope of services, activities and costs having an impact on the Service Charge. Appendix No. 6/b also lists the scope of Supplementary Services.

12.2 Intentionally omitted.

12.3 Intentionally omitted.

12.4 On or before 31 January of each calendar year the Landlord is entitled to determine the Provisional Service Charge with respect to the relevant calendar year based on the scope of services, activities and costs influencing the Service Charge. It is hereby agreed that the aggregate total amount of the the Service Charge and the Provisional Service Charge which are controlled by the Landlord cannot increase by more than 10% on a year-to-year basis. For the purposes of clarification the Parties each acknowledge and agree that if additional categories of services and activities are added as contemplated by Appendix No. 6/b to this Lease, then as a result neither the Provisional Service Charge nor the Service Charge shall be increased by more than 10% in the aggregate on a year-to-year basis.

12.5 Intentionally omitted.

12.6 The Tenant shall pay the Provisional Service Charge (I) in respect of the Premises other than the Office Premises Located on the 2nd floor of the Office Building from the Hand-over Date of such Premises and (II) in respect of the Office Premises Located on the 2nd floor of the Office Building from the date on which the Status Report in connection with the Office Premises located on the 2nd Floor is prepared and agreed between the Parties, and in no event, later than 1 April 2014 to the termination or expiry of the Lease.

12.7 The basis for the calculation of the Provisional Service Charge shall be the Leased Area of the Office Premises. The amount of the Provisional Service Charge shall be 3.92 EUROS + VAT/square meter/month up to 31 December 2013. In respect of the subsequent years the Provisional Service Charge shall be determined by the Landlord in accordance with Section 12.4 above.

12.8 The Landlord shall each year make a settlement about the Service Charge actually incurred and shall indicate the amount paid by the Tenant in excess or its shortfall. The Landlord shall provide to the Tenant this settlement in the form of a notice of Service Charge by 31 March of the following calendar year or, upon its sole discretion, any time earlier. If the Tenant has paid an excess amount, the Landlord will take the excess into account as a minus factor when calculating the next Provisional Service Charge. The Tenant shall settle all its liabilities arising out of the settlement by the due date of the next following Provisional Service Charge at the latest on the basis of the invoice issued by the Landlord.

12.9 Within sixty (60) days of the receipt of the notice of the Service Charge given by the Landlord, the Tenant shall be entitled to inspect the accounting documentation (including, but not limited to invoices) of the Landlord or its property manager and make any objection to any item included therein. The Tenant shall pay its liabilities notwithstanding any objection to any item.

12.10 The Parties agree to settle any dispute between them in relation to the disputed items in the notice of the Service Charge amicably. If the Parties cannot settle the dispute within thirty (30) days, the Parties shall retain one of the Big 4 consulting firms (KPMG Hungária Kft., Ernst&Young Kft., PriceWaterhouseCoopers Kft., Deloitte&Touche Kft.) to make an expert opinion. The Parties agree to accept the expert opinion of the selected and retained consulting firm as binding upon them. The Landlord shall pay the costs of the preparation of the expert opinion, however, in the event that the dispute is settled in favor of the Landlord then Tenant shall reimburse Landlord for the expenses incurred in connection with the audit.

12.11 The Tenant shall not be relieved of the obligation to pay the Provisional Service Charge and the Service Charge even if the Tenant does not use the Common Areas and the Common Establishments e.g. lifts, heating, air-conditioning or hot water supply.

12.12 All duties, taxes, VAT and any other kind of local tax whatsoever in effect or to be levied by any local or governmental authority or the Parliament in respect of the Condominium or the Office Building (" **Taxes** ") shall be borne by the Tenant in the Tenant's Proportion through the Service Charge and the Tenant shall pay the Taxes paid by the Landlord in the Tenant's Proportion as a part of the Service Charge. If during the Lease Term, municipal or governmental authority levies or imposes any tax or other public liabilities in accordance with the foregoing, the Landlord shall automatically raise the Provisional Service Charge in accordance with the amendment to the local or governmental laws prospectively and with retroactive force to the first day of the quarter during which the tax comes into effect on a pro rata basis with respect to the period already elapsed and still remaining from the quarter. The foregoing shall apply with respect to local or central taxes imposed on the Office Building or the Condominium. For the avoidance of doubt, Taxes shall not include taxes imposed on the profit of the Landlord or on the turnover of the Landlord in general.

12.13 It is understood that the Tenant shall pay the Landlord a Supplementary Service Charge for Supplementary Services from the Hand-over Date for the Lease Term, or until such time the Tenant concludes a contract with the provider direct (if applicable). The Supplementary Service Charge shall be paid monthly in arrears on the basis of the invoices issued by each company providing the supply or services. It is the obligation of the Tenant to perform such payment obligations. The failure by the Tenant to meet this obligation shall constitute a serious breach of this Lease.

12.14 The Parties agree that in the event that the Tenant uses further services for the use of the Premises outside the scope of the Supplementary Services, e.g. telecommunications, internet, etc. the Tenant shall perform the provisions of the service agreements made with each service provider at all times.

13. Rent Adjustment

13.1 The amount of the Rent to be paid shall be reviewed and adjusted in each year during the entire Lease Term effective as from 1 January of the relevant calendar year based on the Consumer Price Index provided that the Rent shall never be lower than the Rent which was applicable in the immediately preceding year. The first adjustment shall take place in respect to the Rent payable in the calendar year 2014 effective from Jan. 1, 2014. In the case of such first adjustment, the Rent shall be multiplied with a fraction the numerator of which shall be the last available Consumer Price Index prevailing on the date of the adjustment and the denominator of which shall be the Consumer Price Index prevailing on November, 2012 (i.e. this is the inflation multiplicator applicable in year 2014).Accordingly, the formula for the calculation of the first adjustment shall be the following:

$$\textbf{Index}\,[2014] = \frac{\textbf{MUICP [January,2014]}}{\textbf{MUICP [December,2012]}},$$

if this index is larger than one, otherwise Index [2014]= 1, so that

Rent [2014] = Rent [original] X Index [2014], for offices, parking and storage unites as well, where N= 2015, 2016 … 2023.

In the following calendar years, the inflation multiplicator of each relevant calendar year shall be calculated as follows: the inflation multiplicator of the calendar year preceding the relevant year shall be multiplied by a fraction the numerator of which equals to the Consumer Price Index prevailing in January of the relevant year and the denominator of which equals to the Consumer Price Index prevailing in January of the calendar year preceding the relevant year, unless such fraction is less than one, in which case the inflation multiplicator of the relevant calendar year shall be one. Accordingly, the formula for the calculation of the further adjustments shall be the following:

$$\text{Index [Year (N)]} = \frac{\text{MUICP [January,Year(N)]}}{\text{MUICP [January,Year(N-1)]}},$$

if this index is larger than one, otherwise Index [Year(N)]= 1, so that

Rent [Year(N)] = Rent [Year(N-1)] X Index [Year(N)], for offices, parking and storage unites as well, where N= 2015, 2016 … 2023.

Until the Tenant receives notice on the amount of the adjusted Rent from the Landlord, the Tenant shall pay the same Rent. On the first Rent payment date after the Tenant received the notice of the adjusted Rent from the Landlord, in addition to the adjusted Rent the Tenant shall pay the amount by which the adjusted Rent exceeds the former Rent prorated according to the each day elapsed from 1 January of the relevant year until the relevant Rent payment date.

13.2 The first adjustment shall take place as from 1st January 2014.

13.3 If the Consumer Price Index is not published or cannot be applied for any other reason, the Landlord may replace the Consumer Price Index with a comparable index based on the changes published by Eurostat in the cost of living for consumers and the purchasing power of the euro.

<u>14. Payments</u>

14.1 The Tenant shall pay the Rent in euro (EUR), the Provisional Service Charge and the Supplementary Service Charge in forint (HUF).

14.2 Save for the rent free period specified in Section 11.1, the Tenant shall pay the Fees required in this Lease monthly in advance on the basis of an invoice issued by the fifteenth (15 th) day of the month preceding the first month of the relevant month and the deadline for payment shall be the first (1 st) day of the month. Without respect to the foregoing, the first invoice in respect to the Provisional Service Charge payable for the Premises other than those located on the 2nd floor (which invoice shall include, in the case of a fraction of a calendar month the Fees payable for such fraction of a calendar month) shall be issued by the Landlord on the Hand-over Date and the Tenant shall pay the invoice within 15 (fifteen) days of the receipt of the same.

14.3 The Landlord shall issue a separate invoice for each of the Rent, Provisional Service Charge and the Supplementary Service Charge to be paid.

14.4 If pursuant to an expressed provision of this Lease any amount denominated in euro (EUR) shall be payable in Hungarian forints (HUF) then the forint (HUF) equivalent of such amount shall be calculated such that the euro (EUR) shall be converted into forints (HUF) at the exchange rate of the National Bank of Hungary valid on the date of issuance of the invoice. If the forint is no longer the lawful currency of the Republic of Hungary, then all payments falling due thereafter under this Lease shall be paid in the new lawful currency of the Republic of Hungary.

14.5 Payments to be made under this Lease shall become due and payable against the proper invoice of the Landlord issued in accordance with Section 14.2 without any further notice, request, reminder etc. of the Landlord except as otherwise provided for in this Lease. Any payment obligation shall be deemed to be performed and discharged only if credited to the bank account of the Landlord.

14.6 Payments shall be made to the following bank accounts:

- Rents in EUR to be paid to: 10918001-00000024-97040037
- Provisional and Supplementary Service Charge to be paid to: 10918001-00000024-97040075

14.7 If the Tenant fails to pay the whole or part of Rent or the Provisional Service Charge or any other liability that has fallen due under this Lease, the Tenant shall pay Default Interest for the period from the due date until it is paid to the Landlord. If the due date of a payment is Saturday, Sunday or public holiday, then the interest shall be paid on the second (2 nd) business day following the due date.

14.8 If there is more than one amount outstanding at the same time, then any payment made shall be applied to discharge the amount outstanding for the longest period of time.

14.9 The Tenant shall have no right to reduce, set off from or retain against Rent, the Provisional Service Charge or the Service Charge any claims against the Landlord excluding those which are explicitly allowed under this Lease or finally determined by the Court of Arbitration or amicably settled by the Parties.

15. Insurance

15.1 Throughout the Term the Landlord shall keep insured, on a full reinstatement basis, the Office Building and all fixtures of an insurable nature (other than those which the Tenant is entitled to remove) against loss or damage by fire and any other risks, perils and contingencies (and accidental cover, costs, fees and expenses) and all usual commercial property risks available in the market, together with architects', surveyors' and other requisite professional advisers' fees in relation to the reinstatement of the Premises and the one- year's loss of Rent and Service Charge. The Landlord shall be liable for any and all damages incurred to the Landlord as a result of the failure by the Landlord of observing its obligations set forth hereunder, including the case, where any damages incurred to the Landlord where as a result that the insurance company of the Landlord has refused to make any payment in respect to damages/insured events due to the delay of the Landlord of performing its reporting obligations

15.2 The Tenant shall duly pay the Landlord the costs of the property insurance of the Office Building as a part of the Provisional Service Charge and the Service Charge set out in Appendix No. 6/b.

15.3 On its own account, and in its own name, the Tenant shall take out adequate insurance to cover liabilities, including tenants' liability insurance, and general civil third party liability insurance etc. Tenant shall be responsible to insure at its own costs, against all risk, all equipment, furniture, goods and other movable items owned by the Tenant or any third party other than the Landlord or its assignees inside the Premises. In such a case, the Tenant shall inform the Landlord within 1 (one) business day of becoming aware of the occurrence of the insured event/damages and justify that the damages have been reported to the insurance company of the Tenant. The Tenant shall be liable for any and all damages incurred to the Tenant or the Landlord as a result of the failure by the Tenant of observing its obligations set forth hereunder, including the case, where any damages incurred to the Landlord as a result that the insurance company of the Landlord has refused to make any payment in respect to damages/insured events due to the delay of the Tenant of performing its reporting obligations.

15.4 The Tenant shall take out construction and installation insurance for fit out and decoration works to be carried out by the Tenant and for renewal and reconstruction works if the Tenant carries out works of such nature inside the Premises for a period until the completion of such works. The insurance shall cover any damage or loss that may be caused to the Premises and the Office Building comprising the Premises and the Condominium, and, to a reasonable extent, any damage or loss that may be caused to third persons.

15.5 The Parties agree that the Tenant shall present the original of its insurance policy to the Landlord by the Hand-over Date, or in the case of the insurance policy referred to under Section 15.4 above, until the date of commencement of the works, at the latest and its duplicate shall form Appendix No. 4 to this Lease. The insurance of the Tenant shall be renewed each year with the avoidance of an uninsured gap between the two insured periods. The Tenant shall present the new insurance policy to the Landlord before the renewal date of the insurance. Should the Lessee fail to comply with its obligation hereunder then it shall qualify as a serious breach of this contract.

15.6 On the Hand-over Date at the latest and thereafter whenever the other Party so desires, the Parties shall certify to each other once a year that they have taken out adequate, suitable insurance for the relevant year as prescribed in this Lease.

15.7 Should any change in the use of the Premises increase the insurance premium, the Landlord shall notify the Tenant without delay of the Insurer's intention to do so after it becomes aware of such intention and the Parties shall take all reasonable efforts with the involvement of the Landlord's insurer so that the increase can be avoided or kept to a minimum. The Tenant is obliged to reimburse the Landlord for any increase in the premium that occurred notwithstanding their efforts due to a change in the use of the Premises.

16. Termination of the Lease and Hold-over

16.1 This Lease may only be terminated by either Party for the reasons expressly set forth in this Lease.

16.2 This Lease terminates for the following reasons:

(a) at any time if the Parties terminate this Lease by common consent;

(b) upon the expiry of the Term;

(c) in any other case specified in this Lease or in the laws.

16.3 The Landlord may terminate this Lease in writing with immediate effect, if the competent court has ordered the commencement of liquidation proceedings against the Tenant, the Tenant filed for bankruptcy of liquidation against itself or a corporate resolution has been passed on voluntary dissolution, and if the Tenant proposes a composition with its creditors.

16.4 The Landlord may terminate this Lease in writing pursuant to the provisions set forth below if the Tenant breaches any of its following obligations:

(a) the Tenant falls in delay with any of its payment obligations under this Lease (including, among others, the obligation to pay the Rent or the Provisional Service Charge or the Supplementary Service Charge) for more than one (1) month. In this case the Landlord requests the Tenant to perform its payment obligation within eight (8) days. If the Tenant fails to perform its payment obligation within eight (8) days of the evidenced receipt of such request, then the Landlord may terminate this Lease upon eight (8) days' prior written notice to the Tenant;

(b) the Tenant fails to replenish the Bank Guarantee or the Security Deposit drawn down by the Landlord up to the level required in this Lease by the time set out in Section 10.5. In this case the Landlord requests the Tenant to perform its obligation within eight (8) days. If the Tenant fails to meet its obligation to provide or replenish a Bank Guarantee or the Security Deposit within eight (8) days of the evidenced receipt of the request, then the Landlord may terminate this Lease upon eight (8) days' prior written notice to the Tenant;

(c) the Tenant fails to perform any other of its material obligations set out in this Lease or in the laws in addition to the obligations set out in Sub-sections (a) and (b) above, including without limitation non-compliance with the provisions of Sections 8.6, 9.1, 9.4, 10.2, 10.3 and 15.5, by the time indicated by the Landlord in writing. In this case the Landlord may terminate this Lease in writing upon fifteen (15) days' prior notice to the Tenant;

(d) the Tenant and/or the persons sharing the Premises with the Tenant do(es) not use the Premises as provided for in this Lease or disturb the peaceful enjoyment of other tenants of the Office Building or the Condominium. In such cases the Landlord requests that the Tenant should cease to do so or refrain from doing so, reminding the Tenant of the consequences of such acts. If the Tenant does not cease to act like that or repeats such acts objected to, the Landlord shall be entitled to terminate this Lease upon eight (8) days prior written notice to the Tenant,.

16.5 The notice of the breach by the Tenant of its obligations under this Lease shall contain the breach committed by the Tenant and remind the Tenant that the Landlord may terminate this Lease if the Tenant fails to remedy the breach in a timely manner. The Parties hereby confirm that in the determination of the terms and conditions of the termination they deviated from the provisions of Act No. LXXVIII of 1993 on the Lease and Alienation of Flats and Premises by mutual consent.

16.6 If under Sections 16.3 or 16.4 the Landlord terminates this Lease for a reason for which the Tenant is responsible, the Tenant shall pay the Landlord six (6) months' Rent and Provisional Service Charges in a lump sum as liquidated damages for failure plus a part of the amount (I) of the discount from the Rent set forth in Section 11.4 above and (II) the amount actually utilised by the Tenant from the Landlord’s Contribution and (III) the total amount spent by the Landlord and accepted by the Tenant in connection with the design and certain equipment of the Premises as set out in Appendix 2/d pro rata the time period remaining as at the date of the termination of this Lease until the Expiry Date (as extended pursuant to the terms hereof) within fifteen (15) days of the receipt by the Tenant of the notice of termination.

16.7 The Tenant may only terminate this Lease upon not less than thirty (30) days' notice given to the Landlord if

(a) Intentionally omitted

(b) the Landlord breaches any of its material obligations set out in this Lease and as a result of the breach the Tenant cannot use:

(i) more than 2% of the Office Premises for their intended purpose and the Landlord does not remedy the breach within the shortest possible deadline but maximum within thirty (30) calendar days of the receipt of the notice of the breach from the Tenant; or

(ii) more than 10% of the Office Premises for their intended purpose and the Landlord does not remedy the breach within the shortest possible deadline but maximum within fifteen (15) days;

and the Landlord shall have not provided the Tenant with suitable alternative premises at least in the same size of the area of the Offices Premises that cannot be used for their intended purpose for a period until the Landlord fully restores the Office Premises in a condition suitable for their intended purpose; or

(c) the Landlord breaches any of its material obligations set out in this Lease and as a result of the breach the Tenant cannot use more than 10% of the Office Premises for their intended purpose for an aggregate of more than 20 days within a calendar year and/or 60 days within the Lease Term.

16.8 Total or partial destruction of the Premises shall have the following consequences:

(a) Should the Premises be totally destroyed during the Term, this Lease will be automatically terminated with immediate effect. In this case the pro-rated part of any Rent, Provisional Service Charge already paid shall be refunded.

(b) Should the Premises be in part destroyed during the performance of this Lease, either Party shall be entitled to cancel this Lease with immediate effect by written notice (sent by registered mail with the acknowledgement of receipt), if more than 25% of the Leased Area of the Office Premises are destroyed to such an extent that the time required for restoration exceeds five (5) months and the Landlord shall have not provided suitable alternative premises for the Tenant for the duration of the restoration works. In this case the amount remaining from the Rent, Provisional Service Charge already paid following the deduction of sums outstanding and owed to the Landlord shall be refunded to the Tenant.

16.9 If the Tenant holds over to the Premises after the termination of this Lease and such hold over is not attributable to the Landlord, the Tenant shall pay a fee for the period of the hold-over equivalent to the double amount of the pro rata Rent set out in this Lease for the period of the hold-over against the proper invoice of the Landlord. The Landlord shall invoice the fee payable for the hold-over in arrears every fifteen (15) days, granting eight (8) days from the date of the receipt of the invoice for payment. The Tenant shall reimburse the Landlord within (8) days from the date of the receipt of the invoice except the case when the cause of delay is attributable to the Landlord after the receipt of the proper invoice of the Landlord for any and all costs and damages incurred to the Landlord as a result of any delay in returning the Leased Premises.

16.10 For the duration of the hold-over the Tenant shall pay the pro rata amount of the Provisional Service Charge and a pro-rata amount of the Supplementary Service Charge defined in this Lease.

16.11 The Parties agree that the Tenant shall not pay any Fees, and that the Landlord shall pay a penalty to the Tenant equivalent to the amount of the Rent for every day of the period during which the Tenant cannot use the whole or a part of the Premises for their intended purpose for any reasons other those attributable to the Tenant and the Landlord shall have not provided the Tenant with suitable alternative premises for such period, in proportion to the part of the Premises which cannot be used by the Tenant for their intended purpose. For the avoidance of doubt the Parties agree that any suspension of the services or public utility supplies other than in the circumstances set out in Section 7.12, this Section 16.11 shall apply.

17. Notices and Supplements

17.1 This Lease has been made in two English counterparts and each of the Landlord and the Tenant shall be entitled to one (1) counterpart.

17.2 There may be no verbal supplements to this Lease. Any changes of, or supplements to, this Lease shall be made in writing and agreed by both Parties to be effective.

17.3 All notices, requests, demands and other communications hereunder shall be made in writing and furnished to the Parties addressed to the persons indicated below. Notices shall be deemed to have been duly given if delivered personally or by courier, by facsimile, by registered mail with the acknowledgement of receipt to the Parties addressed to the following persons as follows:

- if to the Landlord:

  dr. Janos J. Berki

  berki.janos@futureal.hu

  1082 Budapest, Futó utca 47-53. 6. em., Hungary

- if to the Tenant:

  General Counsel, Systemax Inc.

  11 Harbor Park Drive, Port Washington, NY 11050

  Cc: International Controller, Systemax Inc.

  11 Harbor Park Drive, Port Washington, NY 11050

17.4 The Parties agree that any notice related to the performance of any payment obligation set out in this Lease and billing will be made to the following persons:

- if to the Landlord:

  dr. Janos J. Berki

  berki.janos@futureal.hu

  1082 Budapest, Futó utca 47-53. 6. em., Hungary

- if to the Tenant:

  International Controller, Systemax Inc.

  11 Harbor Park Drive, Port Washington, NY 11050

17.5 Any declaration given and sent to a Party shall be deemed to have been effectively given and delivered:

(a) in the case of personal delivery or in the case of courier, when delivered to the addressed Party; or

(b) in the case of registered mail with the acknowledgement of receipt upon signing the acknowledgement of receipt; if such acknowledgement of receipt is not signed, on the fifth (5^{th}) business day following the second attempt to deliver.

17.6 Notices shall be delivered on business days (according to the national calendar of the addressee) between 9:00 am to 4:00 pm (Central European Time in both cases). If a notice is delivered on a business day after 4:00 pm, then it shall be deemed to be delivered on the following business day.

18. Miscellaneous

18.1 Either Party shall pay its own legal fees incurred in relation to the preparation and signature of the documentation.

18.2 Intentionally omitted.

18.3 Should any of the provisions of this Lease violate any provisions of applicable law or become invalid during the performance of this Lease, its invalidity shall not affect the validity of this Lease as a whole unless the Parties had not entered into this Lease without the provision that is or has become invalid. Such invalid provision shall be replaced with a provision that is valid and fulfils as closely as possible the supposed intentions of the Parties.

18.4 Any tolerance by the Landlord of any breach of the Tenant's obligations set out in this Lease, whatever its frequency or its duration, shall not allow the Tenant to consider this tolerance as a modification or a cancellation of any of its obligations neither shall it imply a right of any nature for the Tenant, the Landlord being entitled to put an end to this tolerance at any time.

18.5 This Lease together with all the Appendices shall form the entire contractual understanding between the Parties and all earlier verbal or written statements shall be deemed void and any reference made by either Party to such statements shall have no legal effect.

18.6 The Landlord hereby informs the Tenant that it has assigned and pledged all of its rights and receivables arising hereunder to the consortium of banks (Unicredit Bank Zrt. és CIB Bank Zrt.) financing the development of the Office Building as security for the banks receivables under the credit facility. It is understood that the Landlord notifies the Tenant of the assignment and pledge in favour of the financing bank of the claims that the Landlord has under this Lease by sending the Notice of Assignment attached hereto as Appendix No. 11 and the Tenant shall acknowledge the assignment with the Notice of Acknowledgement attached hereto as Appendix No. 12. It is also understood that after receiving the Notice of Claim in the form included in Appendix No. 13 the Tenant may only perform any payment obligation under this Lease to the „Agent" designated in the Notice of Assignment.

18.7 The Landlord consents that the Tenant indicates the Office Premises as its registered seat/business premises/branch office and undertakes to give separate declaration on such consent upon the request of the Tenant without any delay or further costs to the Lessee.

18.8 This Agreement may be executed in one or more counterparts all of which when taken together shall represent one and the same document.

19. Appendices to this Lease

Appendix No. 1: Site plan of the Office Building and the general plan of the Premises

Appendix No. 2/a: General technical specification of the Office Building and the Office Premises

Appendix No. 2/b: Execution Drawings Plans and specifications of the installations by the Landlord carried out in the Office Premises;

Appendix No. 2/c: The maintenance and repair obligations of the Landlord/Manager and the Tenant;

Appendix No. 2/d: The calculation of the Landlord's Contribution

Appendix No. 3: Form of Bank Guarantee defined in Section 10.1

Appendix No. 4: Liability insurance

Appendix No. 5: Status Report

Appendix No. 6/a: Calculation of Areas and the first Rent and the Service Charge

Appendix No. 6/b: The content of the Service Charge

Appendix No. 6/c: The method for calculating the amount of the Bank Guarantee/Deposit

Appendix No. 7/a: Hand-over Protocol No. I

Appendix No. 7/b: Hand-over Protocol No. II

Appendix No. 8: House Rules and the general rules of parking in the Office Building

Appendix No. 9: Signage

Appendix No. 10: Representatives of the Parties

Appendix No. 11: Notice of Assignment

Appendix No. 12: Notice of Acknowledgement

Appendix No. 13: Notice of Claim

20. Representation and Warranties of the Tenant

The Tenant represents and warrants to the Landlord as follows:

20.1 The Tenant is a validly existing company lawfully registered and operating under the laws of the Republic of Hungary, and is not subject to any bankruptcy, liquidation, voluntary liquidation or any other proceedings under the Hungarian law **.**

20.2 The Tenant has all necessary authorization for the execution of this Lease as well as to perform its obligations hereunder. All corporate acts and other proceedings required to be taken by the Tenant to authorize the execution and performance of this Lease have been duly and properly taken.

20.3 The Tenant has duly executed this Lease and it constitutes a legally valid, binding and enforceable obligation of the Tenant in accordance with its terms.

21. Representation and Warranties of the Landlord

The Landlord represents and warrants to the Tenant as follows:

21.1 The Landlord is a validly existing company lawfully registered and operating under the laws of the Republic of Hungary, and is not subject to any bankruptcy, liquidation, voluntary liquidation or any other similar proceedings under the Hungarian law **.**

21.2 The Landlord has all necessary authorization for the execution of this Lease as well as to perform its obligations hereunder. All corporate acts and other proceedings required to be taken by the Landlord to authorize the execution and performance of this Lease have been duly and properly taken.

21.3 The Landlord has duly executed this Lease and it constitutes a legally valid, binding and enforceable obligation of the Landlord in accordance with its terms.

22. Confidentiality

22.1 The Parties, their employees, representatives and agents shall keep, and the Parties shall cause their respective subsidiaries Under their Control or the parent company, if they are Under the Control of the parent company, and their respective employees, representatives and agents to keep, the provisions of this Lease confidential and except as may be required by the laws of the Republic of Hungary, or otherwise determined by a court of the competent jurisdiction, shall make no disclosure thereof to any person, except the Parties' respective legal counsels, accounting and other professional advisors, financing banks, and insurance companies without the prior written consent of the other Party.

22.2 The Tenant may not refuse to give its consent to the provision of comprehensive information to any third person if the Landlord requests so in writing from the Tenant in relation to the sale of the Premises, the Office Building comprising the Premises or the Landlord as a project company.

23. Governing Law

This Lease shall be governed by, and shall be construed in accordance with Hungarian law.

24. Arbitration

24.1 All disputes arising out or in connection with this Lease, shall exclusively be resolved by the Permanent Court of Arbitration of the Hungarian Chamber of Commerce and Industry, which shall proceed in accordance with its own rules of proceeding through a panel of three arbitrators. The language to be used in the arbitration proceedings shall be Hungarian.

24.2 The arbitration shall take place in Budapest, Hungary. The Court of Arbitration shall make its decisions according to the Hungarian law , which is the governing law. The decision of the Court of Arbitration shall be final and binding and the Parties undertake to execute the awards of the Court of Arbitration.

25. Negotiation of this Lease

25.1 The Tenant represents that it had the possibility to negotiate the terms of this Lease and this Lease does not contain any provisions unjustifiably adverse to the Tenant. The Tenant also represents that the provisions of this Lease are fair, clear, comprehensible and in line with the market practice it is familiar with. The Parties acknowledge that the Tenant has the opportunity to negotiate the present Lease and, thus, the terms and conditions hereof shall not qualify as general terms and conditions.

IN WITNESS WHEREOF the Parties have set their hands to sign this Lease at the date indicated above.

On behalf of Corvin Towers Ingatlanforgalmazó Korlátolt Felelősségű Társaság		**On behalf of Systemax Business Services Kor látolt Felelősségű Társaság**	
Signature:	/s/ Dr. János J. Berki	Signature:	/s/ Lawrence Philip Reinhold
Name:	Dr. János J. Berki	Name:	Lawrence Philip Reinhold
Title:	managing director	Title:	managing director
Date and Place:	Budapest, 3 January 2013	Date and Place:	New York, 3 January 2013

CLOSING:

By the execution hereof, pursuant to Section 274(2) of the Hungarian Civil Code, the undersigned undertakes a prompt payment suretyship in favour of the Landlord for the payment obligations of the Tenant arising under Section 16.6 of this Agreement.

Systemax Europe S.á.r.l.

Signature:	/s/ Robert J. Baker	Signature:	/s/ Joost Mees
Name:	Robert J. Baker	Name:	Joost Mees
Title:	Manager 'A'	Title:	Manager 'B'
Date and place:	New York, 3 January 2013	Date and Place:	Luxembourg, 3 January 2013

I hereby accept and agree to the above undertaking of **Systemax Europe S.á.r.l.**

dated as above

Corvin Towers Ingatlanforgalmazó Korlátolt Felelősségű Társaság

/s/ dr. Janos J. Berki

Name: dr. Janos J. Berki

Title: managing director

Exhibit 21

SUBSIDIARIES OF SYSTEMAX INC.

Company Name	**Jurisdiction**
Avenue Industrial Supply Company Limited	Canada
C&H Distribution Holdings Inc.	USA (DE)
C&H Distributors, LLC	USA (DE)
C&H Productos Industriales, S. de R.L. de C.V.	Mexico
Global Directmail BV	Netherlands
Global Equipment Company Inc.	USA (NY)
Global Industrial Distribution Inc.	USA (DE)
Global Industrial Holdings LLC	USA (DE)
Global Industrial Marketplace Inc.	USA (DE)
Global Industrial Mexico Holdings Inc.	USA (DE)
Global Industrial Services Inc.	USA (DE)
Industrialsupplies.Com, LLC	USA (DE)
InMac WStore SAS	France
Misco AB	Sweden
Misco Germany Inc.	USA (NY)
Misco Iberia Computer Supplies S.L.	Spain
Misco Solutions B.V.	Netherlands
Misco UK Limited	United Kingdom
NA Tech Computer Supplies Inc.	USA (NY)
NA Tech Direct Inc.	USA (FL)
NA Tech Distributors Inc.	USA (DE)
NA Tech Gov/Ed Solutions Inc.	USA (DE)
NA Tech Retail Services Inc.	USA (DE)
Nexel Industries, Inc.	USA (NY)
Papier Catalogues, Inc.	USA (NY)
Pocahontas Corp.	USA (DE)
Products For Industry, LLC	USA (DE)
Streak Products Inc.	USA (DE)
Systemax Business Services Kft	Hungary
Systemax Europe Sarl	Luxembourg
Systemax Global Solutions Inc.	USA (NY)
Systemax Italy S.r.l.	Italy

Systemax Puerto Rico, Inc.	Puerto Rico
SYX Distribution Inc.	USA (DE)
SYX North American Tech Holdings LLC	USA (DE)
SYX S.A. Holdings II Inc.	USA (DE)
SYX S.A. Holdings Inc.	USA (DE)
SYX Services Private Limited	India
WStore Europe S.A.S.	France

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

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

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

of our reports dated March 16, 2017, with respect to the consolidated financial statements and schedule of Systemax Inc. and subsidiaries and the effectiveness of internal control over financial reporting of Systemax Inc. and subsidiaries included in this Annual Report (Form 10-K) of Systemax Inc. and subsidiaries for the year ended December 31, 2016.

/s/ Ernst & Young LLP

New York, New York

March 16, 2017

Exhibit 31.1

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Lawrence Reinhold, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter(the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: March 16, 2017

/s/ LAWRENCE REINHOLD

Lawrence Reinhold, Chief Executive Officer

Exhibit 31.2

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas Clark, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: March 16, 2017

/s/ THOMAS CLARK

Thomas Clark, Chief Financial Officer

Exhibit 32.1

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

The undersigned, the Chief Executive Officer of Systemax Inc., hereby certifies that Systemax Inc.'s Form 10-K for the Year Ended December 31, 2016 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78 (o)(d)) and that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Systemax Inc.

Dated: March 16, 2017

/s/ LAWRENCE REINHOLD
Lawrence Reinhold, Chief Executive Officer

Exhibit 32.2

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION OF CHIEF FINANCIAL OFFICER

The undersigned, the Chief Financial Officer of Systemax Inc., hereby certifies that Systemax Inc.'s Form 10-K for the Year Ended December 31, 2016 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78 (o)(d)) and that the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Systemax Inc.

Dated: March 16, 2017

/s/ THOMAS CLARK

Thomas Clark, Chief Financial Officer