SYSTEMAX INC

FORM 10-K
(Annual Report)

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Address	11 HARBOR PARK DR PORT WASHINGTON, NY 11050
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Symbol	SYX
SIC Code	5961 - Catalog and Mail-Order Houses
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[**X**] ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number:
1-13792

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

Delaware (State or other jurisdiction of incorporation or organization)	**11-3262067** (I.R.S. Employer Identification No.)
11 Harbor Park Drive **Port Washington, New York** (Address of principal executive offices)	**11050** (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 whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2003, which is the last business day of the registrant's most recently completed second fiscal quarter, was approximately $22,385,000. 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 15, 2004 was 34,343,786 shares. Documents incorporated by reference: Portions of the definitive Proxy Statement of Systemax Inc. relating to the 2004 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 Exchange Commission or otherwise. Statements contained in this report that are not historical facts are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements may include, but are not limited to, projections of revenue, income or loss and capital expenditures, statements regarding future operations, financing needs, compliance with financial covenants in loan agreements, plans for acquisition or sale of assets or businesses and consolidation of operations of newly acquired businesses, and plans relating to products or services of the Company, assessments of materiality, predictions of future events and the effects of pending and possible litigation, as well as assumptions relating to the foregoing. In addition, when used in this discussion, the words "anticipates," "believes," "estimates," "expects," "intends," "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 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.

Item 1. Business.

General

Systemax is a direct marketer of brand name and private label products, including personal desktop computers ("PCs"), notebook computers, computer related products and industrial products, in North America and Europe. We assemble our own PCs and sell them under the trademarks *Systemax*™ , *Tiger*® and *Ultra*™ . In addition, we market and sell computers manufactured by other leading companies. We offer our customers a broad selection of products, prompt order fulfillment and extensive customer service. Computers and computer related products accounted for 91% of our net sales in 2003.

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

Available Information

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

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

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

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

Recent Developments

Profit Center Software Inc.

In September 2003 we formed a new subsidiary company, Profit Center Software Inc., to market for general commercial use a number of integrated computer software products we had created initially as a customized software solution for our own business. Offered as Profit Center Software ™, it is a suite of web-based business software applications, including sales force automation, order processing and product management applications, which assist companies in automating their business in order to improve efficiencies and maximize profitability. PCS Inc. is actively seeking customers, but is a new venture with all the attendant business risks normally associated with any new business, including uncertainty of future growth and profitability.

Amendments To Company's 1999 Long Term Stock Incentive Plan

On May 20, 2003 our Board of Directors approved, subject to stockholder approval, amendments to the Company's 1999 Long Term Stock Incentive Plan which, among other things, (a) increased the number of Company shares with respect to which awards may be granted under the plan to a total of 5 million shares, (b) increased the limit on yearly award grants to individuals to 1,500,000 shares per type of award and 3,000,000 shares in total, and (c) extended the expiration date of the plan to December 31, 2009. We intend to seek stockholder approval of the plan amendments at our annual stockholders meeting, currently scheduled to be held on May 25, 2004. A copy of the amended plan is an Exhibit to this Annual Report. It will also be annexed to the Company's proxy statement for the 2004 annual stockholders meeting.

2004 Streamlining Plan

In February 2004 we announced a plan to streamline the back office and warehouse operations of our computer businesses in the United States. We anticipate that the streamlining will result in the elimination of approximately 200 jobs and, in conjunction with a January 2004 consolidation of United Kingdom sales offices which resulted in the elimination of 50 jobs, will result in approximately $3 million (pre-tax) of severance and other restructuring costs, which will be reflected in our first quarter 2004 results. We expect that this plan will result in annual savings of approximately $8 million, excluding the severance and other restructuring costs to be recognized in fiscal 2004.

Products

We offer more than 100,000 brand name and private label products. We endeavor to expand and keep current the breadth of our product offerings in order to fulfill the increasingly wide range of product needs of our customers.

Computer sales include Systemax PCs complemented by offerings of other brand name PCs and notebook computers. Our computer related products include supplies such as laser printer toner cartridges and ink jet printer cartridges; media such as recordable disks and magnetic tape cartridges; peripherals such as hard disks, CD-ROM and DVD drives, printers and scanners; memory upgrades; data communication and networking equipment; ergonomic accessories such as adjustable monitor support arms and anti-glare screens; and packaged software.

We assemble our Systemax-brand PCs in our 297,000 square foot, ISO-9000-certified facility in Fletcher, Ohio. We purchase components and subassemblies from suppliers in the United States as well as overseas. Certain parts and components for our PCs are obtained from a limited group of suppliers. Systemax PCs sold in Europe are assembled by third parties. We also utilize licensed technology and computer software in the assembly of our PCs. For a discussion of risks associated with these licenses and suppliers, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors That May Affect Future Results and Financial Condition."

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

The table below summarizes our mix of sales by product category:

Product Type - Years Ended December 31 *(Percentage of net sales)*

	2003	2002	2001
Computer and Computer Related Products	**91%**	90%	89%
Industrial Products	**9**	10	11
Total	**100%**	100%	100%

Sales and Marketing

We market our products to both business customers and individual consumers. Our business customers include large businesses (customers with more than 1,000 employees), small and mid-sized businesses (customers with 20 to 1,000 employees), educational organizations and government entities. We have invested consistently and aggressively in developing a proprietary customer and prospect database. This database includes more than 50 million names. We consider our business customers to be the various individuals who work within an organization rather than the business location itself. The business customer and prospect database includes detailed information, including company size, number of employees, industry, various demographic and geographic characteristics and purchasing history.

We have established an integrated three-pronged system of direct marketing to business customers, consisting of relationship marketers, catalog mailings and propriety internet web sites, designed to maximize sales. Our relationship marketers focus their efforts on our business customers by establishing a personal relationship between such customers and a Systemax account manager. The goal of the relationship marketing sales force is to increase the purchasing productivity of current customers and to actively solicit newly targeted prospects to become customers. With access to the records we maintain of historical purchasing patterns, our relationship marketers are prompted with product suggestions to expand customer order values. In the United States, we also have the ability to provide such customers with electronic data interchange (“EDI”) ordering and customized billing services, customer savings reports and stocking of specialty items specifically requested by these customers. Our relationship marketers’ efforts are supported by frequent catalog mailings and e-mail campaigns designed to generate inbound telephone sales, and our interactive websites, which allow customers to purchase products directly over the Internet. We believe that the integration of these three marketing methods enables us to more thoroughly penetrate our business and government customer base. Increased internet exposure can lead to more internet–related sales and can also generate more inbound telephone sales; just as catalog mailings which feature our websites can result in greater internet-related sales.

We successfully increased our sales to individual consumers through our Tiger Direct subsidiary, using a combination of e-commerce initiatives and catalog mailings. To reach our consumer audience, we use methods such as website campaigns, banner ads and e-mail campaigns. We are able to monitor and evaluate the results of our various advertising campaigns to enable us to execute them in a cost-effective manner. Our catalogs generate calls to inbound sales representatives. These sales representatives use our information systems to fulfill orders and explore additional customer product needs. Sales to consumers are generally fulfilled from our own stock, requiring us to carry more inventory than we would for our business customers. We also periodically take advantage of attractive product pricing by making opportunistic bulk inventory purchases with the objective of turning them quickly into sales.

We have also successfully increased our sales to individual consumers with the addition of a number of retail outlet stores. These stores are located in or near one of our existing sales and distribution centers, thereby minimizing our operating costs. We presently have four such retail locations in North America and plan to add several more in 2004.

Catalogs

We currently produce a total of 30 full-line and targeted specialty catalogs under distinct titles. Our portfolio of catalogs includes such established brand names as *Global Computer Supplies™*, *TigerDirect.com™*, *Misco®*, *HCS*

Misco™, Global Industrial, ArrowStar™, Dartek.com™ and 06™. Full-line computer product catalogs offer products such as PCs, notebooks, peripherals, computer components, magnetic media, data communication, networking and power protection equipment, ergonomic accessories, furniture and software. Full-line industrial product catalogs offer products such as material handling products and industrial supplies. Specialty catalogs contain more focused product offerings and are targeted to individuals most likely to purchase from such catalogs. We mail catalogs to both businesses and consumers. In the case of business mailings, we mail our catalogs to many individuals at a single business location, providing us with multiple points-of-entry. Our in-house staff designs all of our catalogs. In-house catalog production helps reduce overall catalog expense and shortens catalog production time. This allows us the flexibility to alter our product offerings and pricing and to refine our catalog formats more quickly. Our catalogs are printed by third parties under fixed pricing arrangements. The commonality of certain core pages of our catalogs also allows for economies in catalog production.

During 2003, we distributed approximately 97 million catalogs, of which approximately 62 million catalogs were mailed in North America and approximately 35 million catalogs were distributed in Europe. This total was approximately 9% fewer than in the prior year as we were able to leverage our advertising spending as a result of increased internet sales.

E-commerce

We continually upgrade the capabilities and performance of our internet web sites. We currently have twenty-two e-commerce sites, including *www.systemaxpc.com* , *www.globalcomputer.com* , *www.tigerdirect.com* , *www.dartek.com* , *www.misco.co.uk* , *www.simply.co.uk* , *www.hcsmisco.fr* , *www.misco.de and www.globalindustrial.com* , offering a wide variety of computer and industrial products and allowing customers around-the-clock, on-line access to purchase products. Our internet sites feature on-line catalogs of thousands of products. Many of these sites also permit customers to purchase “build to order” PCs configured to their own specifications. In 2003 we had over $384 million in internet-related sales, representing 23.2% of total revenues, an increase of $126 million from 2002.

Customer Service and Support

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

Orders are fulfilled on a timely basis and are generally shipped by United Parcel Service in the United States and by similar national small package delivery services in Europe, as well as by various freight lines and local carriers. Most customers receive their orders (other than custom items, large furniture and large industrial items shipped directly by the vendor) within one or two business days of the order date as a result of the regional locations of our distribution centers.

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

Sales and Distribution Centers

A large number of our products are carried in stock, and orders for such products are fulfilled directly from our distribution centers, typically on the day the order is received. The strategic locations of our distribution centers allow next day or second day delivery via low cost ground carriers throughout most of the United States, Canada and Western Europe. We maintain relationships with a number of large distributors in the United States and Europe that deliver products directly to our customers.

North America

We operate out of multiple sales and distribution facilities in North America. Certain of these facilities are linked by a wide area network management information system. In the event of adverse delivery conditions, such as bad weather at a location, we can shift inbound calls and/or order fulfillment and shipping to an alternate location. We believe this provides us with important operating flexibility and protection from possible sales interruptions for our North American businesses.

Europe

We have sales and/or distribution facilities in eight European countries and a central office in the United Kingdom to direct their activities. The central office is responsible for marketing support, financial reporting, logistics and computer website and programming support. The locations of our distribution centers in Europe have enabled us to market into four additional countries with limited incremental investment.

Suppliers

We purchase the majority of our products and components directly from manufacturers and large wholesale distributors. For the year ended December 31, 2003, Tech Data Corporation accounted for 14.7% and Ingram Micro Inc. accounted for 10.4% of our purchases. For the year ended December 31, 2002, Tech Data Corporation accounted for 14.7% of our purchases. For the year ended December 31, 2001, Tech Data Corporation accounted for 15.1% and Hewlett Packard Company accounted for 10.5% of our purchases. The loss of any of these vendors, or any other key vendors, could have an adverse effect on us.

Certain private label products are manufactured by third parties to our specifications. Many of these private label products have been designed or developed by our in-house research and development teams. See "Research and Development."

Research and Development

Our research and development teams design and develop products for our private label offerings. The individuals responsible for research and development have backgrounds in engineering and industrial design.

This in-house capability provides important support to the private label offerings. Products designed include PCs, servers, furniture, ergonomic monitor support arms, printer and monitor stands, wrist rests and other durable computer related products, storage racks and shelving systems, various stock and storage carts, work benches, plastic bins and shop furniture. We own the tooling for many of these products, including plastic bins, computer accessories, furniture and metal alloy monitor arms. See "Research and Development Costs" in Footnote 1 to the Consolidated Financial Statements for further information.

Competition and Other Market Factors

Personal Computers

The North American and European computer markets are highly competitive, with many U.S., Asian and European companies vying for market share. There are few barriers of entry to the PC market, with PCs being sold through the direct market channel, mass merchants, over the internet and by computer and office supply superstores.

Timely introduction of new products or product features are critical elements to remaining competitive. Other competitive factors include product performance, quality and reliability, technical support and customer service, marketing and distribution and price. Some of our competitors have stronger brand-recognition, broader product lines and greater financial, marketing, manufacturing and technological resources than us. Additionally, our results could also be adversely affected should we be unable to maintain our technological and marketing arrangements with other companies, such as Microsoft®, Intel® and Advanced Micro Devices®.

While economic conditions in the United States have recently begun to improve after several years of adverse conditions, economic conditions in Europe continue to be unsettled, and, on balance, PC sales continue to be slow. This continued slowness has resulted in lower selling prices among our competitors, creating an extremely competitive environment that has affected, and may continue to affect, profitability over the short-term. Our long-term view of the PC market, however, remains optimistic, assuming that the strengthening of U.S. economic conditions continues and conditions in Europe improve.

Computer Related Products

The North American computer related products market is highly fragmented and characterized by multiple channels of distribution including direct marketers, local and national retail computer stores that carry computer supplies, computer resellers, mass merchants, computer and office supply "superstores" and internet-based resellers. In Europe, our major competitors are regional or country-specific retail and direct-mail distribution companies and internet-based resellers.

As with PCs, the continued slowness of the global economy means the environment remains highly competitive, resulting in the continued reduction in retail prices for computer related products, which 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.

Industrial Products

The market for the sale of industrial products in North America is highly fragmented and is characterized by multiple distribution channels such as retail outlets, small dealerships, direct mail distribution, internet-based resellers and large warehouse stores. We also face competition from manufacturers' own sales representatives, who sell industrial equipment directly to customers, and from regional or local distributors. Many high volume purchasers, however, utilize catalog distributors as their first source of product. In the industrial products market, customer purchasing decisions are primarily based on price, product selection, product availability, level of service and convenience. We believe that direct marketing via catalog, the internet and sales representatives is an effective and convenient distribution method to reach mid-sized facilities that place many small orders and require a wide selection of products. In addition, because the industrial products market is highly fragmented and generally less brand oriented, it is well suited to private label products. We sell a minor amount of industrial products in Europe.

Employees

As of December 31, 2003, we employed a total of 3,130 employees, including 3,040 full-time and 90 part-time employees, of whom 1,826 were in North America and 1,304 were in Europe.

Environmental Matters

Under various national, state and local environmental laws and regulations in North America and Europe, a current or previous owner or operator (including the lessee) of real property may become liable for the costs of removal or remediation of hazardous substances at such real property. Such laws and regulations often impose liability without regard to fault. We lease most of our facilities. In connection with such leases, we could be held liable for the costs of removal or remedial actions with respect to hazardous substances. Although we have not been notified of, and are not otherwise aware of, any material 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 environmental matters in the future.

Financial Information About Foreign and Domestic Operations

We conduct our business in North America (the United States and Canada) and Europe. The following sets forth our operations in those two geographic markets (in thousands):

2003	*Europe*	*North America*	*TOTAL*
Net sales....................................	**$631,545**	**$1,026,233**	**$1,657,778**
Income (loss) from operations..............	**$(2,007)**	**$14,530**	**$12,523**
Identifiable assets........................	**$139,059**	**$306,593**	**$445,652**

2002	*Europe*	*North America*	*TOTAL*
Net sales..................................	$587,712	$963,805	$1,551,517
Income (loss) from operations..............	$7,823	$(15,604)	$(7,781)
Identifiable assets........................	$130,651	$307,253	$437,904

2001	*Europe*	*North America*	*TOTAL*
Net sales..................................	$564,360	$982,615	$1,546,975
Income (loss) from operations..............	$18,229	$(15,699)	$2,530
Identifiable assets........................	$121,717	$332,730	$454,447

Item 2. Properties.

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

Facility	**Location**	**Approximate Square Feet**	**Expiration of Lease**
Headquarters, Sales and Distribution Center (1)	Port Washington, NY	86,000	2007
Sales and Distribution Center (2)	Suwanee, GA	361,000	Owned
Sales and Distribution Center	Compton, CA	140,000	2007
Sales and Distribution Center	Naperville, IL	241,000	2010
PC Assembly, Sales and Distribution Center	Fletcher, OH	297,000	Owned
Sales Center	Miami, FL	71,000	2010
Sales and Distribution Center	Markham, Ontario	45,000	2005
Sales and Distribution Center	Verrieres le Buisson, France	48,000	2007
Sales and Distribution Center	Frankfurt, Germany	92,000	2013
Sales and Distribution Center	Madrid, Spain	38,000	(3)
Sales and Distribution Center	Milan, Italy	102,000	2009
Sales and Distribution Center	Greenock, Scotland	78,000	Owned
European Headquarters and Sales Center	Wellingborough, England	75,000	Owned
Sales Center	Amstelveen, Netherlands	21,000	2007
Sales and Distribution Center	Lidkoping, Sweden	20,000	2005

(1) For information about this facility, leased from related parties, see "Item 13--Certain Relationships and Related Transactions"
(2) Approximately 120,000 square feet is leased to a third party through March 2004.
(3) Terminable upon two months prior written notice.

We also lease space for other, smaller offices and retail stores in the United States, Canada and Europe. We have three vacated facilities totaling approximately 100,000 square feet in England, which we are actively trying to sublease. For further information regarding our lease obligations, see Note 10 to the Consolidated Financial Statements.

Item 3. Legal Proceedings.

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

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

During the quarter ended December 31, 2003, there were no matters submitted to a vote of the Company's security holders.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

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

2003	**High**	**Low**
First quarter	**$1.99**	**$1.29**
Second quarter	**4.28**	**1.95**
Third quarter	**8.45**	**3.47**
Fourth quarter	**7.78**	**6.49**

2002	High	Low
First quarter	$2.85	$2.25
Second quarter	3.70	2.40
Third quarter	2.41	1.59
Fourth quarter	1.70	1.23

On March 15, 2004, the last reported sale price of our common stock on the New York Stock Exchange was $5.38 per share. As of March 15, 2004, we had 255 stockholders of record.

We have not paid any dividends since our initial public offering and anticipate that all of our cash provided by operations in the foreseeable future will be retained for the development and expansion of our business, and therefore do not anticipate paying dividends on our common stock in the foreseeable future.

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 income statement data for the years ended December 31, 2003, 2002 and 2001 and the selected balance sheet data as of December 31, 2003 and 2002 is derived from the audited consolidated financial statements which are included elsewhere in this report. The selected balance sheet data as of December 31, 2001, 2000 and 1999 and the selected statement of operations data for the years ended December 31, 2000 and 1999 is derived from the audited financial statements of the Company which are not included in this report.

Years Ended December 31

(In millions, except per common share data and number of catalog titles)

	2003	2002	2001	2000	1999
Statement of Operations Data:					
Net sales	$1,657.8	$1,551.5	$1,547.0	$1,686.1	$1,754.5
Gross profit	$268.3	$265.6	$276.9	$209.9	$314.5
Selling, general & administrative expenses	$251.5	$256.1	$271.6	$270.9	$254.7
Restructuring and other charges	$1.7	$17.3	$2.8		
Income (loss) from operations	$12.5	$(7.8)	$2.5	$(61.0)	$59.8
Provision (benefit) for income taxes	$5.3	$(1.0)	$.4	$(24.5)	$24.5
Income (loss) before cumulative effect of change in accounting principle, net of tax	$5.6	$(8.0)	$.7	$(40.8)	$36.0
Cumulative effect of change in accounting principle, net of tax		$(51.0)			
Net income (loss)	$5.6	$(58.9)	$.7	$(40.8)	$36.0
Net income (loss) per common share, basic and diluted:					
Income (loss) before cumulative effect of change in accounting principle, net of tax	$.16	$(.23)	$.02	$(1.19)	$1.01
Cumulative effect of change in accounting principle, net of tax		$(1.50)			
Net income (loss) per common share, basic and diluted	$.16	$(1.73)	$.02	$(1.19)	$1.01
Weighted average common shares outstanding:					
Basic	34.2	34.1	34.1	34.3	35.8
Diluted	34.9	34.1	34.1	34.3	35.8
Selected Operating Data:					
Orders entered	4.4	4.0	4.0	3.9	4.4
Number of catalogs distributed	97	106	126	157	171
Number of catalog titles	30	37	38	37	37

Balance Sheet Data:

Working capital	$149.1	$133.3	$103.3	$106.7	$186.9
Total assets	$445.7	$437.9	$454.4	$538.0	$551.8
Short-term debt	$20.8	$21.2	$2.8	$48.6	$9.0
Long-term debt, excluding current portion	$18.4	$17.5			$1.7
Shareholders' equity	$212.6	$201.9	$254.9	$255.7	$310.2

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

Overview

We are a direct marketer of brand name and private label products, including personal desktop computers, notebook computers, computer related products and industrial products in North America and Europe. We assemble our own PCs and sell them under our own trademarks, which we believe gives us a competitive advantage. We also sell computers manufactured by other leading companies, such as IBM and Hewlett Packard. We offer more than 100,000 products and continuously update our product offerings to address the needs of our customers, which include large, mid-sized and small businesses, educational and government entities as well as individual consumers. Computers and computer related products account for more than 90% of our net sales, and, as a result, we are dependent on the general demand for information technology products.

The market for computer products is subject to intense price competition and is characterized by narrow gross profit margins. Distribution of information technology products is working capital intensive, requiring us to incur significant costs associated with the warehousing of many products, including the costs of leasing warehouse space, maintaining inventory and tracking systems, and employing personnel to perform the associated tasks. We supplement our product availability by maintaining relationships with major distributors, utilizing a combination of stocking and drop-ship fulfillment.

During fiscal 2002 and 2003, our performance and that of the industry as a whole was impacted negatively by the global economic downturn and cautious information technology spending. As it became evident that the industry was experiencing a prolonged economic downturn, we took measures to align our cost structure with lower revenues and decreasing gross margins. The primary component of our operating expenses historically has been employee related costs, which includes items such as wages, commissions, bonuses, and benefits. We have recently made substantial reductions in our workforce and closed or consolidated several facilities. We have reduced selling, general and administrative expenses from 17.6% of net sales in 2001 to 14.3% (on a comparable basis) of net sales in 2003. In the first quarter of 2004 we announced and began the implementation of a plan to streamline our United States computer business. This plan will consolidate duplicative back office and warehouse operations, which we expect to result in annual savings of approximately $8 million excluding severance and other restructuring costs of approximately $3 million to be recognized in fiscal 2004.

The discussion of our results of operations and financial condition that follows will provide information that will assist in understanding our financial statements, the factors that we believe may affect our future results and financial condition as well as information about how certain accounting principles and estimates affect the financial statements.

Results of Operations

We had net income for the year ended December 31, 2003 of $5.6 million. For the year ended December 31, 2002, we had a net loss of $58.9 million, after recording a cumulative effect of a change in accounting principle of $51 million, net of tax, to reflect the impairment of the entire carrying amount of goodwill. We had net income for the year ended December 31, 2001 of $653,000.

The following table represents our consolidated statement of operations data expressed as a percentage of net sales for the three most recent fiscal years:

	2003	2002	2001
Net sales	100.0%	100.0%	100.0%
Gross profit	16.2%	17.1%	17.9%

Selling, general and administrative expenses	15.2%	16.5%	17.6%
Restructuring and other charges	0.1%	1.1%	0.2%
Goodwill impairment	0.2%		
Income (loss) from operations	0.8%	(0.5)%	0.2%
Interest expense	0.1%	0.1%	0.1%
Income taxes	0.3%	(0.1)%	
Income (loss) before cumulative effect of change in accounting principle, net of tax	0.3%	(0.5)%	0.1%
Cumulative effect of change in accounting principle, net of tax		(3.3)%	
Net income (loss)	0.3%	(3.8)%	0.1%

NET SALES

Net sales for the year ended December 31, 2003 were $1.658 billion, an increase of 6.8% from $1.552 billion for the year ended December 31, 2002. North American sales were $1.026 billion, a 6.5% increase from last year's $963.8 million. The increase in North American sales was a result of growth in our consumer business. Continued weakness in demand for information technology products from corporate customers resulted in lower sales to those customers. European sales, in US dollars, increased 7.5% to $631.5 million for 2003 (representing 38.1% of worldwide sales) compared to $587.7 million (representing 37.9% of worldwide sales) in the year-ago period. Movements in foreign exchange rates positively impacted European sales for 2003 by approximately $81.0 million. If currency exchange rates for 2002 had prevailed in 2003, European sales would have decreased 6.4% from the prior year. Lower demand and the effect of exchange rate movements on product pricing in certain European markets resulted in decreased local currency denominated sales.

Net sales of $1.552 billion in 2002 were $4.5 million or 0.3% higher than the $1.547 billion reported in 2001. The weak worldwide economic environment resulted in reduced demand, particularly in the technology sector. While sales to individual consumers showed growth, sales to business customers remained weak, as the anticipated replacement cycle for PCs continued to be deferred due to our business customers' desire to reduce capital expenditures. PC sales were $350 million in 2002, representing 22.6% of the Company's net sales, which was largely unchanged from 2001. Sales in North America decreased 1.9% to $964 million in 2002 from $983 million in 2001 primarily as a result of the continuing economic slowdown in the United States. European sales increased 4.1% to $588 million in 2002 from $564 million in 2001. Movements in foreign exchange rates positively impacted the European sales comparison by approximately $24.8 million in 2002 compared to 2001. Excluding the movements in foreign exchange rates, European sales would have been substantially unchanged from the prior year.

European economies continued to weaken during 2003, which is reflected in our results. We suffered declines in local currencies in 2003 after a relatively flat year in 2002 and slowing growth in 2001. The table below reflects European sales for the three reported years at constant (2001) exchange rates (in millions):

	2003	2002	2001
European sales as reported	$631.5	$587.7	$564.4
European sales at 2001 exchange rates	$528.3	$563.2	$564.4

GROSS PROFIT

Gross profit, which consists of net sales less product cost, shipping, assembly and certain distribution center costs, was $268.3 million, or 16.2% of net sales, compared to $265.6 million, or 17.1% of net sales, in the year-ago period, an increase of $2.7 million. As a result of adopting Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor", $14.5 million of vendor consideration was recorded as a reduction of cost of sales in 2003. Excluding the impact of EITF 02-16, and therefore on a non-GAAP basis, the gross profit margin would have been 15.3% in 2003 compared to 17.1% in 2002. (The non-GAAP gross profit margin has been included here to provide comparability to the prior year.) The decline in the gross profit margin was due to continued pricing pressure resulting from weak market demand and response to competition and changes in the mix of products sold, as customers continue to shift to lower-priced solutions.

Gross profit was $265.6 million in 2002, down 4.1%, or $11.3 million, from $276.9 million in 2001. As a percentage of sales, gross profit fell to 17.1% in 2002, from 17.9% in 2001. This decline resulted from a decline in the gross profit ratio in the Company's European operations, which was affected by intense pricing pressure in certain of its markets. The gross profit ratio in the Company's North American business decreased only slightly from 2001 as pricing pressures were partially offset by cost reductions resulting from initiatives undertaken in recent years and production efficiencies achieved in the Company's PC assembly business.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for 2003 were $251.5 million compared to $256.1 million in 2002, a net decrease of $4.6 million or 1.8%. The decrease was realized in our North American operations and included decreased television advertising spending related to sales of the Company's PCs. In addition, as a result of increased internet sales, we were able to leverage our total advertising spending and reduce our other advertising expenses by reducing the number of catalogs we mailed. These decreases were partially offset by approximately $13 million of increased costs in Europe resulting from the effects of changes in foreign exchange rates and the effects of the adoption of EITF 02-16. The adoption of EITF 02-16 resulted in the reclassification of $14.5 million of vendor consideration as a reduction of cost of sales, which would previously have been recorded as a reduction of advertising expense. As a percentage of sales, selling, general and administrative expenses were 15.2% (14.3% on a non-GAAP basis before the adoption of EITF 02-16) compared to 16.5% in the year-ago period.

Selling, general and administrative expenses totaled $256.1 million, or 16.5% of net sales, in 2002, a decrease of $15.6 million, or 5.7%, compared to $271.6 million, or 17.6% of net sales, in 2001. Reductions in catalog costs comprised the largest portion of the decrease. The Company also reduced its employee count in the United States, lowering its salary expense and related benefit costs in 2002. Selling, general and administrative expenses also declined as a result of actions taken to reduce costs and tighten discretionary spending. These reductions were partially offset by increased salary and other operating expenses in the Company's European operations.

RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of 2003 we implemented a plan to consolidate the warehousing facilities in our United States computer supplies business. We recorded $713,000 of costs related to this plan in the fourth quarter, including $233,000 of non-cash costs for impairment of the carrying value of fixed assets and $480,000 of charges for other exit costs.

During 2002 we implemented a plan to consolidate the activities of our three United Kingdom locations into a new facility we had constructed. We incurred $4.1 million of costs associated with the plan, including $1.9 million for recruitment, staff relocation and severance and benefits for approximately 150 terminated employees, $1.7 million of charges for other exit costs, primarily facilities closing and lease terminations, and $0.5 million of non-cash costs for impairment of the carrying value of fixed assets. During the fourth quarter of fiscal 2003 we recorded $2.2 million of additional costs, net of reductions, related to this plan as a charge to operations. These charges consisted of $1.6 million of other restructuring activities as we adjusted the original estimates of lease and contract termination costs and $600,000 of additional non-cash asset impairments, related to buildings vacated.

In 2001 approximately $2 million of previously capitalized costs associated with software projects abandoned were written off. We also incurred approximately $750,000 of costs in 2001 related to the consolidation of one of our domestic warehouse locations.

In August 2003 we settled our litigation with a software developer and reversed a previously recorded liability of $1.3 million, which was no longer required.

During the second quarter of 2003, we purchased the minority ownership of our Netherlands subsidiary for approximately $2.6 million, pursuant to the terms of the original purchase agreement. All of the purchase price was attributable to goodwill and, as a result of an impairment analysis, was written off in accordance with Statement of Financial Accounting Standards 142, "Goodwill and Other Intangible Assets."

During the second quarter of 2002 we recorded a non-recurring write-off of $13.2 million resulting from our decision to discontinue development of internal-use computer software.

INCOME (LOSS) FROM OPERATIONS

We had income from operations of $12.5 million in 2003, a loss from operations of $7.8 million in 2002 and income from operations for the year ended December 31, 2001 of $2.5 million. Results in 2003 include restructuring and other charges of $1.7 million and a goodwill impairment charge of $2.6 million. The loss from operations in 2002 includes $17.3 million of restructuring and other charges. Income from operations in 2001 includes the elimination of a liability of $3 million recorded in a prior year which we determined was no longer required and expense of $2.8 million for restructuring and other charges. We had a loss from operations in Europe in 2003 of $2.0 million, compared to income from operations of $7.8 million in 2002 and $18.2 million in 2001. European results declined as a result of decreased gross profit, increased selling, general and administrative expenses and $4.8 million of restructuring and other charges.

INTEREST AND OTHER INCOME AND INTEREST EXPENSE

Interest expense was $2.3 million in 2003, $1.7 million in 2002 and $1.8 million in 2001. The increased expense in 2003 resulted from increased short-term borrowings under our United Kingdom facility and a full year of interest expense on long-term obligations incurred in 2002. We had decreased borrowings under our United States and United Kingdom short-term credit facilities in 2002, the effect of which was partially offset by interest expense on new long-term borrowings entered into during the year. Interest and other income was $0.8 million in 2003, $0.4 million in 2002 and $0.3 million in 2001.

INCOME TAXES

We recorded an income tax provision of $5.3 million in 2003, an income tax benefit of $1.0 million in 2002 and an income tax provision of $389,000 in 2001. The effective rates were 48.7% in 2003, 11.5% in 2002 and 37.3% in 2001. The effective tax rate in 2003 was adversely affected by the goodwill impairment write-off, which is not tax deducible. The mix in taxable income and losses between our U. S. and foreign operations and the expected utilization of our deferred tax assets significantly impacted the recording of the 2002 tax benefit. In 2002, we also incurred additional tax expense in connection with audit assessments in two of our foreign subsidiaries. For the years ended December 31, 2003 and 2002, we have not recognized certain foreign tax credits, certain state tax benefits on losses in the United States and certain benefits on losses in foreign tax jurisdictions due to our inability to carry such credits and losses back to prior years. Accordingly, valuation allowances were recorded against the deferred tax assets associated with those tax credits and net operating loss carryforwards.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

During the first half of 2002, we completed the transitional review for goodwill impairment required by SFAS 142. The review indicated that the entire carrying value of the goodwill recorded on our balance sheet was impaired as of January 1, 2002. Accordingly, we recorded a transitional impairment loss of $68 million ($51 million net of tax or a net loss per share of $1.50) as a cumulative effect of change in accounting principle in our statements of operations for the year ended December 31, 2002.

NET INCOME (LOSS)

As a result of the above, net income for 2003 was $5.6 million, or $.16 per basic and diluted share, the net loss for 2002 was $58.9 million, or $1.73 per basic and diluted share, and net income for 2001 was $653,000, or $.02 per basic and diluted share.

Seasonality

Net sales have historically been modestly weaker during the second and third quarter as a result of lower business activity during those months. The following table sets forth the net sales, gross profit and income (loss) from operations for each of the quarters since January 1, 2002 *(amounts in millions)* .

2003	March 31	June 30	September 30	December 31
Net sales..	$426	$389	$405	$438
Percentage of year's net sales	25.7%	23.5%	24.4%	26.4%
Gross profit.....................................	$72	$64	$67	$65
Income (loss) from operations....................	$9	$(1)	$4	$1

2002	March 31	June 30	September 30	December 31
Net sales	$412	$364	$372	$403
Percentage of year's net sales	26.6%	23.4%	24.0%	26.0%
Gross profit	$74	$62	$63	$67
Income (loss) from operations	$1	$(14)	$2	$4

Financial Condition, Liquidity and Capital Resources

Liquidity is the ability to generate sufficient cash flows to meet obligations and commitments from operating activities and the ability to obtain appropriate financing and to convert into cash those assets that are no longer required to meet existing strategic and financing objectives. Therefore, liquidity cannot be considered separately from capital resources that consist of current and potentially available funds for use in achieving long-range business objectives and meeting debt service commitments. Currently, our liquidity needs arise primarily from working capital requirements and capital expenditures.

Our working capital was $149 million at December 31, 2003, an increase of $16 million from $133 million at the end of 2002. This was due principally to a $36 million increase in inventories, a $4 million increase in accounts receivable and a $13 million decrease in accrued expense and other current liabilities offset by a $24 million decrease in cash, a $3 million decrease in prepaid expenses and other current assets and a $10 million increase in accounts payable. Our inventories increased to meet the needs of our growing consumer base, as increased stock levels facilitate such sales, while sales to business customers include a large portion of merchandise shipped directly by our vendors. The increase in accounts receivable was less pronounced, as sales to consumers are generally paid by credit card, which have a 2-3 day shipment-to-cash cycle compared to the normal 30-day payment terms offered to our business customers. We expect that future accounts receivable and inventory balances will fluctuate with the mix of our net sales between consumer and business customers.

We maintain our cash and cash equivalents primarily in money market funds or their equivalent. As of December 31, 2003, all of our investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Our cash balance decreased $24.3 million to $38.7 million during the year ended December 31, 2003. Net cash used in operating activities was $6.9 million in 2003, compared with net cash provided by operating activities of $4.9 million in 2002 and $95.6 million in 2001. The decrease in cash provided by operations in 2003 resulted from changes in our working capital accounts, which used $31.7 million in cash compared to $16.8 million in 2002, and resulted primarily from the increase in our inventories and a decrease in accounts payable and accrued expenses. This was partially offset by an increase in cash generated from net income adjusted by other non-cash items, which provided $24.8 million in 2003, compared to $21.6 million provided by these items in 2002. The decrease of $90.7 million in cash provided by operations in 2002 was primarily a result of changes in working capital, which used $16.8 million in cash compared to $66.2 million provided in 2001, and resulted primarily from increases in our inventories, accounts receivable and prepaid expenses. Cash was provided by operations in 2001 by inventory reductions, decreases in accounts receivable and receipt of a tax refund resulting from the loss recorded in the United States in 2000, offset by a decrease in accounts payable.

In 2003, $11.2 million of cash was used in investing activities, principally $8.7 million for the purchase of property, plant and equipment, and $2.6 million for the acquisition of the minority interest in our Netherlands subsidiary. The capital expenditures in 2003 included upgrades and enhancements to our information and communications systems hardware and facilities costs for the opening of several retail stores. Cash of $14.7 million was used in investing activities in 2002. This included $15.4 million of additions to property, plant and equipment, primarily for the completion of a new facility for our United Kingdom operations. In 2001 we used cash in investing activities of $23.8 million, primarily for property, plant and equipment additions. These expenditures included $9.5 million for software and systems development and $5.5 million toward the construction of our United Kingdom facility. We anticipate no major capital expenditures in 2004 and will fund any capital expenditures out of cash from operations and borrowings under our credit lines.

Net cash of $1.9 million was used in financing activities in 2003. Cash of $4.2 million was used to repay short and long-term obligations, which was partially offset by $1.5 million of cash provided by the issuance of capital leases and $759,000 provided by the exercise of stock options. Cash of $33.8 million was provided by financing activities in 2002 from bank borrowings and the mortgaging of our Georgia distribution facility and new United Kingdom facility. In 2001, $45.8 million of cash was used in financing activities, all of which paid down short-term borrowings.

Under our $70 million United States secured revolving credit agreement, which expires in June 2004, availability as of December 31, 2003 was $49.0 million. The revolving credit agreement contains certain financial and other covenants, including restrictions on capital expenditures and payments of dividends. We were in compliance with all of the covenants as of December 31, 2003. There were outstanding letters of credit of $8.0 million and there were no outstanding advances as of December 31, 2003. We are in the process of extending this facility through the end of the first quarter of 2005 while we negotiate a new agreement.

We also maintain a £15 million ($26.9 million at the December 31, 2003 exchange rate) multi-currency credit facility with a financial institution in the United Kingdom, which is available to our United Kingdom subsidiaries. The facility does not have a termination date, but may be canceled by either party on six months notice. Borrowings under the facility are secured by certain assets of our United Kingdom subsidiaries. At December 31, 2003 there were £7.5 million ($13.3 million) of borrowings outstanding under this line with interest payable at a rate of 5.85%.

In October 2003 our Netherlands subsidiary entered into a €5 million ($6.3 million at the December 31, 2003 exchange rate) credit facility. Borrowings under the facility are secured by the subsidiary's accounts receivable and are subject to a borrowing base limitation of 85% of the eligible accounts. At December 31, 2003 there were €4.5 million ($5.7 million) of borrowings outstanding under this line with interest payable at a rate of 5.0%. The facility expires in November 2005.

In 2002 we entered into a £6.6 million ($10.6 million at the December 31, 2003 exchange rate), 11½ year term loan agreement with a United Kingdom bank, to finance the construction of a new United Kingdom facility. The borrowings are secured by the land and building and are repayable in 40 quarterly installments of £165,000 ($295,000) through August 2012. The outstanding borrowings bear interest at LIBOR plus 160 basis points (5.25% at December 31, 2003). In connection with this term loan, we also entered into an interest rate collar agreement to reduce our exposure to market rate fluctuations. At December 31, 2003, the notional amount of the interest rate collar was £5,775,000 ($10,338,000) with an interest rate cap of 6.0% and a floor of 4.5%. The interest rate collar expires on April 30, 2005. As of December 31, 2003, the collar was in a loss position of approximately $39,000 and, accordingly, the aggregate fair value of the collar was recorded as a liability. The change in the fair value of this derivative for the year ended December 31, 2003 has been recognized in the Consolidated Statement of Operations as this hedge was determined to be ineffective. The term loan agreement contains certain financial and other covenants related to our United Kingdom subsidiaries.

In April 2002 we entered into a ten year, $8.4 million mortgage loan on our Suwanee, Georgia distribution facility. The mortgage has monthly principal and interest payments of $62,000 through May 2012, with a final additional principal payment of $6.4 million at maturity in May 2012. The mortgage loan bears interest at 7.04% and is collateralized by the underlying land and building.

We are obligated under operating leases for the rental of certain facilities and equipment which expire at various dates through 2013. We currently lease our New York facility from an entity owned by Richard Leeds, Robert Leeds and Bruce Leeds, the Company's three principal shareholders and senior executive officers. The annual rental totals $612,000 and the lease expires in 2007.

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 commitments at December 31, 2003 (in thousands):

	2004	2005	2006	2007	2008	After 2008
Contractual Obligations:						
Maturities of long-term debt	$1,746	$1,740	$1,745	$1,675	$1,516	$11,677
Payments on non-cancelable operating leases	7,277	7,128	6,511	5,614	3,984	11,063
Purchase commitments	1,883	-	-	-	-	-

Total contractual obligations	$10,906	$8,868	$8,256	$7,289	$5,500	$22,740
Other Commitments:						
Letters of credit	$8,000	N/A	N/A	N/A	N/A	N/A

Our operating results have generated cash flow which, together with borrowings under our debt agreements, have provided sufficient capital resources to finance working capital and cash operating requirements, fund capital expenditures, and fund the payment of interest on outstanding debt. Our primary ongoing cash requirements will be to finance working capital, fund the payment of principal and interest on indebtedness and fund capital expenditures. We believe future cash flows from operations and availability of borrowings under our lines of credit (as they are expected to be extended) will be sufficient to fund ongoing cash requirements.

We are party to certain litigation, as disclosed in "Commitments and Contingencies" in the Notes to Consolidated Financial Statements, the outcome of which we believe, based on discussions with legal counsel, will not have a material adverse effect on our consolidated financial statements.

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.

Factors That May Affect Future Results and Financial Condition

There are a number of factors and variables that affect our results of operations and financial condition. Following is a description of some of the important factors that may affect future results.

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

  Both we and our business customers are subject to global political, economic and market conditions, including military action and the threat of terrorism. Economic conditions in the United States have recently begun to improve after several years of adverse conditions. Economic conditions in Europe continue to be unsettled. If the strengthening of general economic conditions does not continue and if conditions in Europe remain weak, our results could continue to be adversely affected. We may experience a decline in sales as a result of poor economic conditions and the lack of visibility relating to future orders. Our consolidated results of operations depend upon, among other things, our ability to maintain and increase sales volumes with existing customers, our ability to attract new customers and the financial condition of our customers. A decline in the economy that adversely affects our customers, causing them to limit or defer their spending, would likely adversely affect us as well. We cannot predict with any certainty whether we will be able to maintain or improve upon historical sales volumes with existing customers, or whether we will be able to attract new customers.

  In response to economic and market conditions, from time to time we have undertaken initiatives to reduce our cost structure where appropriate. The initiatives already implemented as well as any future workforce and facilities reductions undertaken may not be sufficient to meet the changes in economic and market conditions and to achieve future profitability. 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.

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

  We may not be able to compete effectively with current or future competitors. The market for our products and services is intensely competitive and subject to constant technological change. We expect this competition to further intensify in the future. Competitive factors include price, availability, service and support. We compete with a wide variety of other resellers and retailers, as well as manufacturers. Some of our competitors are larger companies with greater financial, marketing and product development resources than ours. In addition, new competitors may enter our markets. This may place us at a disadvantage in responding to competitors' pricing strategies, technological advances and other initiatives, resulting in our inability to increase our revenues or maintain our gross margins in the future.

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

Our 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.

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

We purchase a significant portion of our computer related products from major distributors such as Tech Data Corporation and Ingram Micro Inc. and directly from large manufacturers such as IBM and Hewlett Packard, who 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 maintaining large amounts of inventory. The termination or interruption of our relationships with any of these suppliers could materially adversely affect our business.

Our PC products contain electronic components, subassemblies and software that in some cases are supplied through sole or limited source third-party suppliers, some of which are located outside of the U.S. Although we do not anticipate any problems procuring supplies in the near-term, there can never be any assurance that parts and supplies will be available in a timely manner and at reasonable prices. Any loss of, or interruption of supply from key suppliers may require us to find new suppliers. This could result in production or development delays while new suppliers are located, which could substantially impair operating results. If the availability of these or other components used in the manufacture of our products was to decrease, or if the prices for these components were to increase significantly, operating costs and expenses could be adversely affected.

A portion of our revenues is derived from the sale of products manufactured using licensed patents, software and/or technology. Failure to renew these licenses on favorable terms or at all could force us to stop manufacturing and distributing these products and our financial condition could be adversely affected.

Many product suppliers provide us with co-op 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-op advertising support and other incentives received from suppliers may decline in the future, which could increase our cost of goods sold or selling, general and administrative expenses and have an adverse effect on results of operations and cash flows.

- *We are exposed to inventory risks.*

Our inventory is subject to risk due to technological change and changes in market demand for particular products. Certain of our suppliers offer limited price protection from the loss in value of inventory and we have limited right to return purchases to suppliers. The decrease or elimination of price protections or purchase returns could lower our gross margin or result in inventory write-downs. We also periodically 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 enter into such arrangements may significantly impact our sales and profitability.

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

Our United States subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe other appropriate nexus to obligate such collection exists. Other states may, from time to time, claim that we have state-related activities constituting a sufficient nexus to trigger such collection. Additionally, many other states seek to impose sales tax collection obligations on companies that sell goods to customers in their state even without a physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the tax burden on residents. We rely, as do other direct mail retailers, on United States Supreme Court decisions which hold that, without Congressional authority, a state may not enforce a sales tax collection obligation on a company that has no physical presence in the state and whose only contacts with the state are through the use of interstate commerce such as the mailing of catalogs into the state and the delivery of goods by mail or common carrier. We cannot predict whether the nature or level of contacts we have with a particular state will be deemed enough to require us to collect sales tax in that state nor can we be assured that Congress or individual states will not approve legislation authorizing states to impose tax collection obligations on all direct mail and/or e-commerce transactions. A successful assertion by one or more states that we should collect sales tax on the sale of merchandise could result in substantial tax liabilities for 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.

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

  We currently have operations located in nine countries outside the United States, and non-U.S. sales accounted for 39.7% of our revenue during 2003. Our future results could be materially adversely affected by a variety of factors, including changes in foreign currency exchange rates, changes in a country's economic or political conditions, unexpected changes in regulatory requirements and natural disasters.

- *Our income tax rate and the value of our deferred tax assets are subject to change.*

  Changes in taxes due to changes in the mix of U.S. and non-U.S. revenues and profitability, changes in tax rates or exposure to additional income tax liabilities could affect our profitability. We are subject to income taxes in the United States and various foreign jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws or by material audit assessments. The carrying value of our deferred tax assets, which are primarily in the United States, is dependent on our ability to generate future taxable income in the United States. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions and a material assessment by a tax authority could affect our profitability.

- *Business disruptions could adversely impact our revenue and financial condition.*

  It is our policy to insure for certain property and casualty risks consisting primarily of physical loss to property, business interruptions resulting from property losses, workers' 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 and large losses could materially affect our insurance obligations and future expense.

- *Reliance on technology*

  We rely on a variety of information and telecommunications systems in our operations. Our success is dependent in large part on the accuracy and proper use of our information systems, including our telecommunications systems. To manage our growth, we continually evaluate the adequacy of our existing systems and procedures. We anticipate that we will regularly need to make capital expenditures to upgrade and modify our management information systems, including software and hardware, as we grow and the needs of our business change. The occurrence of a significant system failure or our failure to expand or successfully implement our systems could have a material adverse effect on our results of operations.

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

- *Availability of credit and financing.*

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

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

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

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

  As a public company, we incur significant legal, accounting and other expenses that we would not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and new listing requirements subsequently adopted by the New York Stock Exchange in response to Sarbanes-Oxley, have required changes in corporate governance practices of public companies. We expect these developments to increase our legal compliance and financial reporting costs and make some activities more costly and time consuming. These developments may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage, possibly making it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee. We presently cannot estimate the timing or magnitude of additional costs we may incur as a result; however, to the extent these costs are significant, our general and administrative expenses are likely to increase as a percentage of revenue and our results of operations will be negatively impacted.

Other factors that could contribute to or cause such differences include, but are not limited to, unanticipated developments in any one or more of the following areas: (i) the effect on us of volatility in the price of paper and periodic increases in postage rates, (ii) the operation of our management information systems, (iii) significant changes in the computer products retail industry, especially relating to the distribution and sale of such products, (iv) timely availability of existing and new products, (v) risks involved with e-commerce, including possible loss of business and customer dissatisfaction if outages or other computer-related problems should preclude customer access to us, (vi) risks associated with delivery of merchandise to customers by utilizing common delivery services such as the United States Postal Service and United Parcel Service, including possible strikes and contamination, (vii) borrowing costs or availability, (viii) pending or threatened litigation and investigations and (ix) the availability of key personnel, as well as other risk factors which may be detailed from time to time in our Securities and Exchange Commission filings.

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.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 1 to the consolidated financial statements. The policies below have been identified as critical to our business operations and understanding the results of operations. Certain accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty, and as a result, actual results could differ from those estimates. These judgments are based on historical experience , observation of trends in the industry, information provided by customers and information available from other outside sources, as appropriate. Management believes that full consideration has been given to all relevant circumstances that we may be subject to, and the consolidated financial statements of the Company accurately reflect management's best estimate of the consolidated results of operations, financial position and cash flows of the Company for the years presented. Actual results may differ from these estimates under different conditions or assumptions.

Revenue Recognition. We recognize sales based on the terms of the customer purchase order, which indicates title to the product and risk of ownership passes to the customer upon shipment. Sales are shown net of returns and allowances. Reserves for estimated returns and allowances are provided when sales are recorded based on historical experience and current trends.

Accounts Receivable and Allowance for Doubtful Accounts . We record an allowance for doubtful accounts to reflect our estimate of the collectibility of our trade accounts receivable. We evaluate the collectibility of accounts receivable based on a combination of factors, including an analysis of the age of customer accounts and our historical experience with accounts receivable write-offs. The analysis also includes the financial condition of a specific customer or industry, and general economic conditions. In circumstances where we are aware of customer charge-backs or a specific customer's inability to meet its financial obligations, a specific reserve for bad debts applicable to amounts due to reduce the net recognized receivable to the amount management reasonably believes will be collected is recorded. In those situations with ongoing discussions, the amount of bad debt recognized is based on the status of the discussions. While bad debt allowances have been within expectations and the provisions established, there can be no guarantee that we will continue to experience the same allowance rate we have in the past.

Inventories. We value our inventories at the lower of cost or market, cost being determined on the first-in, first-out method. Reserves for excess and obsolete or unmarketable merchandise are provided based on historical experience, assumptions about future product demand and market conditions. The adequacy of these reserves are evaluated quarterly. If market conditions are less favorable than projected or if technological developments result in accelerated obsolescence, additional write-downs may be required. While markdowns and obsolescence have been within expectations and the provisions established, there can be no guarantee that we will continue to experience the same level of markdowns we have in the past.

Long-lived Assets. Management exercises judgment in evaluating our long-lived assets for impairment. We believe we will generate sufficient undiscounted cash flow to more than recover the investments made in property, plant and equipment. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect our evaluations

Income Taxes. We are subject to taxation from federal, state and foreign jurisdictions and the determination of our tax provision is complex and requires significant management judgment. Management judgment is also applied in the determination of deferred tax assets and liabilities and any valuation allowances that might be required in connection with our ability to realize deferred tax assets.

Since we conduct operations internationally, our effective tax rate has and will continue to depend upon the geographic distribution of our pre-tax income or losses among locations with varying tax rates and rules. As the geographic mix of our pre-tax results among various tax jurisdictions changes, the effective tax rate may vary from period to period. We are also subject to periodic examination from domestic and foreign tax authorities regarding the amount of taxes due. These examinations include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. We have established, and periodically reevaluate, an estimated income tax reserve on our consolidated balance sheet to provide for the possibility of adverse outcomes in income tax proceedings. While management believes that we have identified all reasonably identifiable exposures and that the reserve we have established for identifiable exposures is appropriate under the circumstances, it is possible that additional exposures exist and that exposures may be settled at amounts different than the amounts reserved.

We account for income taxes in accordance with Statement of Financial Accounting Standards 109, “Accounting for Income Taxes”, which requires that deferred tax assets and liabilities be recognized for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. The realization of net deferred tax assets is dependent upon our ability to generate sufficient future taxable income. Where it is more likely than not that some portion or all of the deferred tax asset will not be realized, we have provided a valuation allowance. If the realization of those deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination is made. In the event that actual results differ from these estimates or we adjust these estimates in future periods, an adjustment to the valuation allowance may be required, which could materially affect our consolidated financial position and results of operations.

Restructuring charges. We have taken restructuring actions, and may commence further restructuring activities which requires management to utilize significant estimates related to expenses for severance and other employee separation costs, lease cancellations, asset impairments and other exit costs. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be impacted, which could materially affect our consolidated financial position and results of operations.

Recent Accounting Developments

In November 2002, the Financial Accounting Standards Board issued Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. Interpretation 45 also elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of Interpretation 45 did not have a material effect on our consolidated financial statements.

In December 2003, the Financial Accounting Standards Board issued Interpretation 46 (Revised) to address certain Interpretation 46 implementation issues. This interpretation clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial Statements", for companies that have interests in entities that are Variable Interest Entities as defined under Interpretation 46. According to this interpretation, if a company has an interest in a Variable Interest Entity and is at risk for a majority of the Variable Interest Entity's expected losses or receives a majority of the Variable Interest Entity's expected gains it shall consolidate the Variable Interest Entity. Interpretation 46-R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those Variable Interest Entity's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. We have adopted Interpretation 46-R and are evaluating the impact of this interpretation on our consolidated financial statements.

In April 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." Statement of Financial Accounting Standards 149 amends and clarifies Statement of Financial Accounting Standards 133 for the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of Statement of Financial Accounting Standards 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of Statement of Financial Accounting Standards 149 did not have a material impact on our consolidated financial statements.

In May 2003, the Financial Accounting Standards Board issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Statement of Financial Accounting Standards 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of Statement of Financial Accounting Standards 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of Statement of Financial

Accounting Standards 150 did not have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosure 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 as measured against the U.S. dollar and each other.

We have limited involvement with derivative financial instruments and do not use them for trading purposes. Changes in currency exchange rates as measured against the U.S. dollar may positively or negatively affect sales, gross margins, operating expenses and retained earnings as expressed in U.S. dollars. 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, 2003 we had no outstanding forward exchange contracts.

Our exposure to market risk for changes in interest rates relates primarily to our variable rate debt. In connection with our United Kingdom term loan agreement, effective April 30, 2002 we entered into an interest rate collar agreement to reduce our exposure to market rate fluctuations. At December 31, 2003 the notional amount of the interest rate collar was £5.8 million ($10.3 million at the December 31, 2003 exchange rate) with an interest rate cap of 6.0% and a floor of 4.5%. The interest rate collar expires on April 30, 2005.

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.

The Company has carried out an evaluation under the supervision of management, including the Chairman and Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2003, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is assembled and reported to the Company’s management, including the Chairman and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The information required by Item 10 of Part III is hereby incorporated by reference from the Company's Proxy Statement for the 2004 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 from 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 from the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

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

Item 14. Principal Accounting Fees and Services.

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

PART IV

Item 15. Exhibits, Financial Statements, Schedules and Reports on Form 8-K.

(a) 1. The Consolidated Financial Statements of Systemax Inc.

	Reference
Independent Auditors' Report	30
Consolidated Balance Sheets	31
Consolidated Statements of Operations	32
Consolidated Statements of Shareholders' Equity	33
Consolidated Statements of Cash Flows	34
Notes to Consolidated Financial Statements	35 - 44

2. Financial Statement Schedules:

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.

3. Exhibits.

Exhibit No.	Description
3.1	Composite Certificate of Incorporation of Registrant, as amended[9]
3.2	By-laws of Registrant[1]
4.1	Stockholders Agreement[2]
10.1	Form of 1995 Long-Term Stock Incentive Plan[3*]
10.2	Form of 1999 Long-Term Stock Incentive Plan as amended[13*]
10.3	Lease Agreement dated September 20, 1988 between the Company and Addwin Realty Associates (Port Washington facility)[1]
10.4	Amendment to Lease Agreement dated September 29, 1998 between the Company and Addwin Realty Associates (Port Washington facility)[6]
10.5	Lease Agreement dated as of July 17, 1997 between the Company and South Bay Industrials Company (Compton facility)[4]
10.6	Build-to-Suit Lease Agreement dated April, 1995 among the Company, American National Bank and Trust Company of Chicago and Walsh, Higgins & Company (Naperville facility)[1]
10.7	Lease Agreement dated September 17, 1998 between Tiger Direct, Inc. and Keystone Miami Property Holding Corp. (Miami facility)[5]
10.8	Royalty Agreement dated June 30, 1986 between the Company and Richard Leeds, Bruce Leeds and Robert Leeds, and Addendum thereto[1]
10.9	Form of 1995 Stock Plan for Non-Employee Directors3*
10.10	Consulting Agreement dated as of January 1, 1996 between the Company and Gilbert Rothenberg[3*]
10.11	Separation Agreement and General Release between the Company and Robert Dooley, dated March 5, 2004[*]
10.12	Employment Agreement dated as of December 12, 1997 between the Company and Steven M. Goldschein[4*]
10.13	Loan and Security Agreement, dated June 13, 2001, between The Chase Manhattan Bank (as Lender and Agent) and TransAmerica Business Capital Corporation (as Lender and Co-Agent) with the

	Company and certain subsidiaries of the Company (as Borrowers), as amended, the "Chase Loan Agreement")[7]
10.14	Amendment No. 1, dated as of September 1, 2001, to the Chase Loan Agreement[8]
10.15	Amendment No. 2, dated as of December 13, 2001, to the Chase Loan Agreement[9]
10.16	Amendment No. 3, dated as of December 20, 2001, to the Chase Loan Agreement[9]
10.17	Amendment No. 4, dated as of April 18, 2002, to the Chase Loan Agreement[10]
10.18	Amendment No. 5, dated as of June 30, 2002, to the Chase Loan Agreement[11]
10.19	Amendment No. 6, dated as of September 22, 2003, to the Chase Loan Agreement
10.20	Promissory Note of Systemax Suwanee LLC, dated as of April 18, 2002 payable to the order of New York Life Insurance Company in the original principal sum of $8,400,000[10]
10.21	Deed to Secure Debt, Assignment of Leases and Rents and Security Agreement, dated as of April 18, 2002 from Systemax Suwanee LLC to New York Life Insurance Company[10]
14	Corporate Ethics Policy for Officers, Directors and Employees
19	Specimen stock certificate of Registrant[9]
21	Subsidiaries of the Registrant
23	Consent of experts and counsel: Consent of Independent Public Accountants
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Charter of the Audit Committee of the Company's Board of Directors, as revised February 28, 2003[12]
99.2	Charter of the Compensation Committee of the Company's Board of Directors, as approved February 28, 2003[12]
99.3	Charter of the Nominating/Corporate Governance Committee of the Company's Board of Directors, as approved February 28, 2003[12]
99.4	Annual CEO Certification to the New York Stock Exchange, dated March 26, 2004

(b) Reports on Form 8-K.

A report on Form 8-K was filed by the Company on November 12, 2003 regarding the Company’s financial results for the quarterly period ended September 30, 2003.

* Management contract or compensatory plan or arrangement

1 Incorporated herein by reference to the Company's registration statement on Form S-1 (Registration No. 33-92052).

2 Incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 1995.

3 Incorporated herein by reference to the Company's registration statement on Form S-1 (Registration No. 333-1852).

4 Incorporated herein by reference to the Company's annual report on Form 10-K for the year ended December 31, 1997.

5 Incorporated herein by reference to the Company’s quarterly report on Form 10-Q for the quarterly period ended September 30, 1998.

6 Incorporated herein by reference to the Company’s annual report on Form 10-K for the year ended December 31, 1998.

7 Incorporated herein by reference to the Company's report on Form 8-K dated June 13, 2001

8 Incorporated herein by reference to the Company’s quarterly report on Form 10-Q for the quarterly period ended

September 30, 2001.

9 Incorporated herein by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2001.

10 Incorporated herein by reference to the Company’s quarterly report on Form 10-Q for the quarterly period ended March 31, 2002.

11 Incorporated herein by reference to the Company’s quarterly report on Form 10-Q for the quarterly period ended June 30, 2002.

12 Incorporated herein by reference to the Company’s annual report on Form 10-K for the year ended December 31, 2002.

13 Incorporated herein by reference to the Company's report on Form 8-K dated May 20, 2003.

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/ RICHARD LEEDS
Richard Leeds
Chairman and Chief Executive Officer

Date: March 26, 2004

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	Chairman and Chief Executive Officer (Principal Executive Officer)	March 26, 2004
/s/ BRUCE LEEDS Bruce Leeds	Vice Chairman and President of International Operations	March 26, 2004
/s/ ROBERT LEEDS Robert Leeds	Vice Chairman and President of Domestic	March 26, 2004
/s/ STEVEN GOLDSCHEIN Steven Goldschein	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 26, 2004
/s/ MICHAEL J. SPEILLER Michael J. Speiller	Vice President and Controller (Principal Accounting Officer)	March 26, 2004
/s/ ROBERT D. ROSENTHAL Robert D. Rosenthal	Director	March 26, 2004
/s/ STACY DICK Stacy Dick	Director	March 26, 2004
/s/ ANN R. LEVEN Ann R. Leven	Director	March 26, 2004

EXHIBIT INDEX

Exhibit No.	Description

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10.11	Separation Agreement and General Release between the Company and Robert Dooley, dated March 5, 2004
10.19	Amendment No. 6, dated as of September 22, 2003, to the Chase Loan Agreement
14	Corporate Ethics Policy for Officers, Directors and Employees
21	Subsidiaries of the Registrant
23	Consent of experts and counsel: Consent of Independent Public Accountants
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.4	Annual CEO Certification to the New York Stock Exchange

SEPARATION AGREEMENT AND GENERAL RELEASE
Between
SYSTEMAX INC.
And
ROBERT DOOLEY

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES A RELEASE OF ALL CLAIMS AND A WAIVER OF ALL RIGHTS TO MAKE A CLAIM AGAINST THE EMPLOYER INCLUDING THE CLAIM THAT YOU HAVE BEEN DISCRIMINATED AGAINST BECAUSE OF YOUR AGE. DO NOT SIGN THIS AGREEMENT IMMEDIATELY. YOU HAVE FORTY FIVE (45) DAYS FROM THE DATE YOU RECEIVE THIS AGREEMENT TO DECIDE WHETHER OR NOT YOU WISH TO SIGN IT. YOU SHOULD CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS AGREEMENT. YOU MAY REVOKE THIS AGREEMENT WITHIN 7 BUSINESS DAYS AFTER SIGNING IT BY NOTIFYING THE COMPANY IN WRITING. NOTICE OF REVOCATION SHOULD BE SENT TO SYSTEMAX INC., 11 Harbor Park Drive, Port Washington, NY 11050 ATTENTION: General Counsel. IF YOU REVOKE THIS AGREEMENT, THE AGREEMENT SHALL BE TERMINATED IN ITS ENTIRETY AND YOU WILL NOT RECEIVE THE BENEFITS SET FORTH HEREIN.

THIS AGREEMENT AND GENERAL RELEASE is made and entered into between ROBERT DOOLEY (“You") and SYSTEMAX INC. (the “Company"), with respect to your termination of employment with the Company. You and the Company agree as follows with respect to your termination of employment:

1. References to the Company when used in this Agreement and General Release shall include **SYSTEMAX INC.** , its parent, divisions, subsidiaries and affiliates, its and their predecessors, successors or assigns, and their respective trustees, directors, officers, employees, agents and representatives.

2. The references to "You" and "Your" in this Agreement and General Release refer to **Robert Dooley.** They also mean anyone acting on Your behalf, which includes Your heirs, Your executors, Your administrators, Your successors and Your assigns.

3. The Company is entering into this agreement to resolve all matters of dispute or potential dispute with You arising out of and relating to Your employment and termination of employment, and to compensate You for the release and waiver of rights set forth below.

4. You acknowledge that You have reviewed each and every word of this Agreement to be sure that You understand the Agreement's full effect. You acknowledge that You have taken adequate time to do so thoroughly and carefully, and that the Company has given You the opportunity by the Company to engage in this review independently, in consultation with an attorney freely chosen by You, and with Your family, which You have been encouraged to do so. You acknowledge that neither the Company nor its employees, agents, representatives or attorneys, made any representations concerning the terms or effects of the Agreement other than those stated in the Agreement.

5. This Agreement constitutes the entire Agreement between You and the Company with respect to all matters covered in this Agreement or relating to Your employment or termination of employment with the Company. No other promises have been made. This Agreement and the Employee Agreement supersede any other agreements between the Company and You. This Agreement may not be changed orally.

6. By affixing its signature to this Agreement, the Company does not acknowledge any violation of any federal, state, or local law, ordinance, rule, or regulation or common law requirement, duty or obligation, or contract, and affirmatively states that it has not violated same.

7. This Agreement is made and entered into in the State of New York and shall in all respects be interpreted, enforced and governed under the laws of said State. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the parties.

8. You acknowledge and agree that Your employment with the Company will be permanently and irrevocably terminated, effective March 5, 2004 (the "Termination Date"). In addition, effective as of the Termination Date, You acknowledge and agree that You will resign your position (a) as an officer of the Company (namely, Senior Vice President, Sales and Marketing), (b) as a member of the Company's Board of Directors and (c) as an officer and director of the Company's subsidiaries.

9. In consideration for Your obligations under the terms of this Agreement, the Company agrees to pay You as severance pay, following the Termination Date, a total of **$867,665.16** (equaling thirty (30) months base salary). This payment shall be subject to all regular and customary payroll taxes and deductions (insurance, FICA, Federal and State withholdings). The payment shall be made in regular bi-weekly installments beginning on the first regular Company payday following the Termination Date provided You have executed this Agreement and have not exercised Your right to terminate this Agreement within seven days of its execution. The Company shall make said payments by check mailed to You at Your home address on the employment records of the Company, or by direct deposit into a bank account you designate. No accrued vacation time shall be paid to You nor shall additional vacation time accrue as a result of the severance payments paid to You.

9A. Your stock option agreements with the Company are hereby amended as follows: any Company stock options previously granted to You which have not previously been terminated, surrendered or exercised shall be fully exercisable, in whole or part, beginning 7 business days following the date You sign this Agreement. All such stock options shall expire on March 31, 2005. All other terms of Your stock option agreements with the Company shall remain unchanged.

10. For eighteen (18) months following the Termination Date the Company will continue to provide You with medical coverage under COBRA on the same terms and with the same contribution requirements as Company employees. Thereafter, for twelve (12) months the Company will pay You an amount per month equal to the monthly amount that was required to be paid to continue your medical coverage under COBRA.

10A. You may retain for Your personal use, the Company car (BMW Model M5 VIN# WBSDE93482CF90788) which the Company leases for You until the expiration of the car lease on March 6, 2006 at which time you shall surrender this car to the Company for return to the Lessor.

10B. Following the severance payment period You shall have the option convert your group life insurance policy to an individual policy.

11. You acknowledge that the Company is not otherwise obligated to pay You severance pay or pay in lieu of notice in the amount set forth in paragraph 9 above, and that the Company's obligations as set forth in paragraph 9 arise solely out of this Agreement and are in consideration for Your promises set forth herein, and that those obligations do not arise out of any other agreement with or obligation of the Company.

12. The Company shall have no duties or liabilities towards You except as set forth herein.

13. You hereby release and discharge the Company from any and all claims You may have against the Company at the time of the execution of this Agreement arising out of Your employment with the Company, or Your termination of employment, or performance of services for the Company. This release includes, but is not limited to, any claims relating to a wrongful, premature or discriminatory termination of Your employment, or discriminatory terms and conditions of employment, and any claims arising under the Age Discrimination in Employment Act, the Civil Right Acts of 1866, 1871, 1964 and/or 1991, the Equal Pay Act, the Americans with Disabilities Act, the Rehabilitation Act of 1973, the Family and Medical Leave Act, the Pregnancy Discrimination Act, the Immigration Reform and Control Act, the National Labor Relations Act, the New York Human Rights Law, and/or any other federal, state, or local laws or regulations prohibiting discrimination on the basis of age, race, color, creed, national origin, sex, sexual orientation, marital status, or any other form of illegal discrimination. This release and waiver of claims also includes any claims under any other federal, state or local law, tort or breach of contract or common law, infliction of emotional distress, or for attorneys fees, or other injury.

14. You expressly acknowledge that the release and waiver of claims set forth above includes all claims that have arisen up to the date this Agreement, whether or not such claims have been asserted and whether or not such claims are

known to You at the time of the making of this Agreement.

15. You agree not to file any claim or participate as a party in any lawsuit for any claim waived in paragraphs 13 and 14, nor to seek or obtain any personal monetary benefits or equitable relief from the Company in any individual lawsuit, class action lawsuit or other legal proceeding brought by others against the Company for any reason.

16. For a period of thirty (30) months following the Termination Date (the "Non-Compete Period"), You hereby covenant and agree that You will not, directly or indirectly, anywhere in North America and Europe (the "Territory"), (i) compete, directly or indirectly, as an officer, director, shareholder, partner, investor, agent, employee, consultant, advisor or otherwise, with the Company in the business or activities in which the Company is now engaged; (ii) directly or indirectly, on Your own behalf or on behalf of or as an officer, director, shareholder, partner, investor, agent, employee, consultant, advisor or otherwise, of any other person or entity, contact or approach any person or business, wherever located, for the purpose of competing with the Company's business, in the Territory; or (iii) participate as an officer, director, shareholder, partner, investor, agent, employee, consultant, advisor or otherwise, or have any other direct or indirect financial interest in, any enterprise which engages in the Company's business in the Territory; provided, however, that You may own up to two (2%) percent of the capital stock of any corporation (other than the capital stock of the Company as to which this clause (iii) shall not apply), required to file reports pursuant to the Securities Exchange Act of 1934. For purposes of this paragraph (a) the "Company" shall be deemed to include Systemax Inc. and its subsidiaries and affiliated companies including but not limited to Global Computer Supplies Inc. and (b) the "Company's business" shall be deemed to be the advertising, marketing, distribution, sale and/or manufacture of personal computers, computer related accessories and supplies and/or industrial products by means of any medium including, but not limited to, broadcast, cable or satellite television, radio, print or the Internet.

16A. You agree not to hire, attempt to hire or solicit the employment of any employee or officer of the Company or affiliate of the Company on behalf of yourself or any person, firm or corporation, or otherwise interfere with the employment relationship between the Company and any employee of the Company for a period of thirty (30) months from the date hereof.

17. You agree that You will keep the terms and amount and fact of this Agreement completely confidential, and that You will not hereafter disclose any information concerning this Agreement to any person other than Your present attorneys, accountants, tax advisors, or immediate family. This provision shall not apply to any action by You to enforce the terms of this Agreement, to report your income to the Internal Revenue Service, nor prevent any disclosure required by law including, but not limited to, regulations under federal and state securities laws.

18. You agree not to disclose directly or indirectly to any person at any time following your termination of employment by the Company any knowledge or information not generally available to the public regarding the Company's methods, systems (including management information systems), trade secrets, customer information, supplies, pricing, business strategy or other private or confidential matters which You acquired during the course of Your employment.

19. During the severance payment period You agree to fully cooperate with the Company and to use your best efforts during normal business hours to answer any questions any Company representative may have concerning the Company's operations. In addition, during the severance period You agree not to defame or otherwise make any public statement regarding the Company or any director, officer or employee thereof which would materially injure the reputation of the Company or such director, officer or employee.

20. In the event You breach this Agreement the Company shall discontinue any and all severance payments payable under this Agreement and You shall refund to the Company any and all severance payments and other consideration (including payments relating to medical coverage and car lease) previously made to You, or for your benefit, under this Agreement. In addition, in the event You breach this Agreement the Company shall be entitled to (a) both a preliminary and permanent injunction in order to prevent a further breach of this Agreement, and (b) money damages in so far as they can be determined.

SYSTEMAX INC.

BY: /s/ Steven Goldschein

/s/ Robert Dooley
ROBERT DOOLEY

Address

Date: March 5, 2004

Date: March 5, 2004

AMENDMENT NO. 6

TO

LOAN AND SECURITY AGREEMENT

THIS AMENDMENT NO. 6 ("Amendment No. 6") is entered into as of September 22, 2003 by and between SYSTEMAX INC., a corporation organized under the laws of the State of Delaware ("SYX"), SYSTEMAX MANUFACTURING INC. (formerly known as Midwest Micro Corp.), a corporation organized under the laws of the State of Delaware ("SMI"), GLOBAL COMPUTER SUPPLIES INC. (successor by merger to Continental Dynamics Corp.), a corporation organized under the laws of the State of New York ("GCS"), GLOBAL EQUIPMENT COMPANY, INC., a corporation organized under the laws of the State of New York ("GEC"), TIGER DIRECT, INC., a corporation organized under the laws of the State of Florida ("Tiger"), DARTEK CORPORATION, a corporation organized under the laws of the State of Delaware ("Dartek"), NEXEL INDUSTRIES, INC., a corporation organized under the laws of the State of New York ("NII"), MISCO AMERICA INC., a corporation organized under the laws of the State of Delaware ("Misco"), SYSTEMAX RETAIL SALES INC., a corporation organized under the laws of the State of Delaware ("SRS"), PAPIER CATALOGUES, INC., a corporation organized under the laws of the State of New York ("PCI"), CATALOG DATA SYSTEMS, INC., a corporation organized under the laws of the State of New York ("CDS"), MILLENNIUM FALCON CORP., a corporation organized under the laws of the State of Delaware ("MFC"), TEK SERV INC., a corporation organized under the laws of the State of Delaware ("TSI"), B.T.S.A., Inc., a corporation organized under the laws of the State of New York ("BTSA") and KEYBOARDMALL.COM INC., a corporation organized under the laws of the State of Delaware ("KMC") (SYX, SMI, GCS, GEC, Tiger, Dartek, NII, Misco, SRS, PCI, CDS, MFC, TSI, BTSA and KMC, each a "Borrower" and jointly and severally the "Borrowers"), the lenders who are parties to the Loan Agreement, as defined herein ("Lenders") and JPMORGAN CHASE BANK, as agent for the Lenders ("Agent").

BACKGROUND

Borrowers, Agent and Lenders are parties to a Loan and Security Agreement dated as of June 13, 2001 (as amended by Amendment No. 1 to Loan and Security Agreement dated as of September 1, 2001, Amendment No. 2 to Loan and Security Agreement and Consent dated as of December 13, 2001, Amendment No. 3 to Loan and Security Agreement dated as of December 20, 2001, Amendment No. 4 to Loan and Security Agreement and Consent dated as of April 18, 2002, Amendment No. 5 and Waiver to Loan and Security Agreement dated as of June 30, 2002, and as the same may be amended, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which the Lenders provide Borrowers with certain financial accommodations.

Borrowers have requested Agent and Lenders to increase the maximum amount of Letters of Credit which may be issued under the terms of the Loan and Security Agreement from $7,500,000 to $10,000,000 and Agent and Lenders are willing to do so on the terms and conditions hereafter set forth.

NOW , **THEREFORE** , in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions . All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Amendment to Loan Agreement . Subject to satisfaction of the conditions precedent set forth in Section 3 below, the penultimate sentence appearing in Section 2.8 of the Loan Agreement is hereby amended and restated in its entirety as follows:

> The maximum amount of outstanding Letters of Credit shall not exceed $10,000,000 in the aggregate at any time

3. Conditions of Effectiveness. This Amendment No. 6 shall become effective as of the date upon which Agent shall have received four (4) copies of this Amendment No. 6 executed by Borrowers, Required Lenders and each Guarantor.

4. Release. Each Borrower hereby releases, remises, acquits and forever discharges each Lender and Agent and each Lender's and Agent's employees, agents, representatives, consultants, attorneys, fiduciaries, officers, directors, partners, predecessors, successors and assigns, subsidiary corporations, parent corporations, and related corporate divisions (all of the foregoing hereinafter called the "Released Parties"), from any and all actions and causes of action, judgments, executions, suits, debts, claims, demands, liabilities, obligations, damages and expenses of any and every character, known or unknown, direct and/or indirect, at law or in equity, of whatsoever kind or nature, for or because of any matter or things done, omitted or suffered to be done by any of the Released Parties prior to and including the date of execution hereof, and in any way directly or indirectly arising out of or in any way connected to this Agreement or the Other Documents (all of the foregoing hereinafter called the "Released Matters"). Each Borrower acknowledges that the agreements in this Section are intended to be in full satisfaction of all or any alleged injuries or damages arising in connection with the Released Matters.

5. Representations and Warranties. Borrowers hereby represent and warrant as follows:

(a) This Amendment No. 6 and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of Borrowers and are enforceable against Borrowers in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment No. 6, each Borrower hereby reaffirms all covenants, representations and warranties made in the Loan Agreement as amended hereby and agree that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment No. 6.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Amendment No. 6.

(d) Borrowers have no defense, counterclaim or offset with respect to the Loan Agreement.

6. Effect on the Loan Agreement.

(a) Upon the effectiveness of this Amendment No. 6, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

(b) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(a) The execution, delivery and effectiveness of this Amendment No. 6 shall not operate as a waiver of any right, power or remedy of Agent or any Lender, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

7. Governing Law. This Amendment No. 6 shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

8. Headings. Section headings in this Amendment No. 6 are included herein for convenience of reference only and shall not constitute a part of this Amendment No. 6 for any other purpose.

9. Counterparts; Telecopied Signatures. This Amendment No. 6 may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which taken together shall be deemed to constitute one and the same agreement. Any signature delivered by a party via telecopier shall be deemed to be an original signature hereto.

[balance of page intentionally left blank]

IN WITNESS WHEREOF , this Amendment No. 6 has been duly executed as of the day and year first written above.

SYSTEMAX INC.

By: /s/ Steven M. Goldschein
Name: Steven M. Goldschein
Title: Senior Vice President

SYSTEMAX MANUFACTURING INC.
GLOBAL COMPUTER SUPPLIES INC.
GLOBAL EQUIPMENT COMPANY, INC.
TIGER DIRECT, INC.
DARTEK CORPORATION
NEXEL INDUSTRIES, INC.
MISCO AMERICA INC.
SYSTEMAX RETAIL SALES INC.
PAPIER CATALOGUES, INC.
CATALOG DATA SYSTEMS, INC.
MILLENNIUM FALCON CORP.
TEK SERV INC.
B.T.S.A., INC.
KEYBOARDMALL.COM INC.

By: /s/ Steven M. Goldschein
Name: Steven M. Goldschein
Title: Vice President

JPMORGAN CHASE BANK, as Lender and as Agent

By: /s/ Donna M. DiForio
Name: Donna M. DiForio
Title: Vice President

(signatures continued on page 5)

TRANSAMERICA BUSINESS CAPITAL CORPORATION,
as Lender and as Co-Agent

By: /s/ Michael S. Burns
Its: SVP
- Region Manager

GMAC COMMERCIAL CREDIT LLC,
as Lender

By: /s/ David Duffy

Its: Senior Vice President

ACKNOWLEDGED AND AGREED:

SYSTEMAX SUWANEE LLC

BY: Systemax Inc., Member

By: /s/ Steven M. Goldschein
Name: Steven M. Goldschein
Title: Senior Vice President

THE MILLENNIUM GROUP LLC

By: Millennium Falcon Corp., Member

By: /s/ Steven M. Goldschein
Name: Steven M. Goldschein
Title: Vice President

By: WRD Sales, Inc., Member

By: /s/ William R. Davis
Name: William R. Davis
Title:

SYSTEMAX INC.

CORPORATE ETHICS POLICY

The Systemax Inc. Corporate Ethics Policy was prepared to provide the shareholders, employees and customers of Systemax Inc. (the “Company”) and the general public with a statement of the Company's commitment to ethical business conduct. This applies to the Company and all of its subsidiaries in North America and Europe. The Company is committed to acting as a responsible and ethical corporate world citizen. The officers and employees of the Company will conduct its business with the highest regard for its ethical and legal obligations and with the utmost loyalty to its shareholders and customers.

Policies:

Loyalty to the Company and its Shareholders:

Officers and employees of the Company owe a duty of loyalty to the Company and those who invested in the Company. No officer or employee will allow any considerations such as the receipt of gifts, financial interests in other businesses, or personal or family relationships to interfere with their independent exercise of their business judgment and work activities to the benefit of the Company. Officers and employees will be sensitive to the confidential business information of the Company and guard against any misuse or waste of the Company's assets or corporate opportunities. This includes, but is not limited to, trade secrets, intellectual property rights such as trademarks and patents, product sourcing information, strategic plans, etc. Company employees will refrain from the use of Company property for personal use other than on an incidental basis. Officers and employees will comply with internal controls or procedures of the Company, which are intended to allow for better management and protection of the Company's assets in order to maximize the value of the Company to its shareholders.

Fair Treatment of Fellow Employees:

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

Gifts and Relationships with Customers and Suppliers:

All customers and suppliers will be treated fairly based solely on appropriate business factors. Gifts of significant economic value should not be offered or provided to any customer or potential customer. Gifts of significant economic value should not be accepted from any supplier or potential supplier either directly or indirectly provided , however , that no amount of cash may ever be accepted as a gift. Company employees may not solicit any gift, entertainment or other gratuity. Gifts include tangibles and intangibles such as cash, excessive entertaining, tickets to events, services, etc. Gifts of a “significant economic value” include more than one gift from the same source, which in the aggregate is of a significant economic value. Gifts received or offers of gifts that are more than $100 must be reported immediately to an employee's supervisor.

No gift, friendship, or other non-business aspect of any relationship with any customer or supplier should affect an employee’s obligation to deal with all customers, prospective customers and suppliers in a manner consistent with the best interests of the Company. Neither an employee nor any member of his/her family may have any financial or economic involvement, such as employment by, a business venture with, or investment in any customer or supplier of the Company (other than the ownership of the stock of publicly traded companies) without written disclosure to the Company and approval of the Company.

Competitors:

The Company competes vigorously but fairly. Employees shall not engage in conduct that results in the Company using any trade secrets, copyrights, trademarks, patents or other proprietary or confidential information belonging to a competitor.

Compliance With Applicable Laws and Regulations of Governmental Bodies and Agencies:

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

While the Company encourages its employees to participate in the political process, they are cautioned not to create the impression that they speak or act on behalf of the Company. Certain U .S. and foreign laws prohibit the Company from contributing to political candidates of parties or party officials except under limited conditions.

A variety of U.S. and foreign laws govern the accurate and complete entry of accounting and financial information. The Company and its employees are to maintain all such financial records in an accurate and complete manner in accordance with such laws.

The numerous applications of domestic and international laws to the activities of the Company cannot be set forth fully here, but all officers and employees should be sensitive to the ongoing need to assure appropriate consideration of any activity that might violate any such laws.

Procedures in the Event of a Concern:

All officers and employees of the Company have an obligation to discuss any concern they have with regard to the application of these policies to any conduct in which they participate, are asked to participate, or become aware of. Normally, such concerns should be brought to the attention of the immediate supervisor of the employee or officer. The Company is aware that in certain situations it may be unrealistic to discuss concerns with a supervisor and encourages any employee or officer to contact any of the following in such circumstances:

Richard Leeds- Chairman and CEO

Steven Goldschein- Senior Vice President and CFO

Curt Rush- General Counsel

Human Resources Department-New York Office

Importance of Compliance With These Policies:

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

Exhibit 21

SUBSIDIARIES OF SYSTEMAX INC.

DOMESTIC SUBSIDIARIES

1. Global Computer Supplies Inc. (a New York corporation)
2. Global Equipment Company Inc. (a New York corporation)
3. Dartek Corporation (a Delaware corporation)
4. Nexel Industries Inc. (a New York corporation)
6. Tiger Direct Inc. (a Florida corporation)
7. Systemax Manufacturing Inc. (a Delaware corporation)

FOREIGN SUBSIDIARIES

1. Misco Germany Inc. (a New York corporation)
2. Misco Italy Computer Supplies S.P.A. (an Italian corporation)
3. H C S Global SA (a French corporation)
4. Systemax Europe Ltd. (a U.K. corporation)
5. Global Computer Products BV (a Dutch corporation)
6. Dabus Dataproducktor AB (a Swedish corporation)
7. Misco Iberia Computer Supplies S.A. (a Spanish corporation)

Deloitte

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-21489, 333-21491, and 333-111618 of Systemax Inc. on Form S-8 of our report dated March 12, 2004 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the Company's change in method of accounting for goodwill and other intangible assets to conform to Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets") appearing in this Annual Report on Form 10-K of Systemax Inc. for the year ended December 31, 2003.

/s/ Deloitte & Touche LLP

March 26, 2004

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Richard Leeds, Chief Executive Officer of Systemax Inc., certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) for the registrant and we 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 these entities, particularly during the period in which this annual report is being prepared;

b) 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

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's 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:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting known to me 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 controls over financial reporting.

Date: March 26, 2004

<u>/s/ RICHARD LEEDS</u>
Richard Leeds, Chief Executive Officer

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Steven M. Goldschein, Chief Financial Officer of Systemax Inc., certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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)) for the registrant and we 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 these entities, particularly during the period in which this annual report is being prepared;

b) 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

c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's 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:

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting known to me 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 controls over financial reporting.

Date: March 26, 2004

<u>/s/ STEVEN M. GOLDSCHEIN</u>
Steven M. Goldschein, Chief Financial Officer

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

The undersigned, the Chief Executive Officer of Systemax Inc., hereby certifies that to the best of his knowledge, Systemax Inc.'s Form 10-K for the Year Ended December 31, 2003 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 26, 2004

/s/ RICHARD LEEDS
Richard Leeds, Chief Executive Officer

Exhibit 32.2

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

The undersigned, the Chief Financial Officer of Systemax Inc., hereby certifies that to the best of his knowledge, Systemax Inc.'s Form 10-K for the Year Ended December 31, 2003 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 26, 2004

/s/ STEVEN M. GOLDSCHEIN
Steven M. Goldschein, Chief Financial Officer

Exhibit 99.4

Annual CEO Certification to the New York Stock Exchange

(Section 303A.12(a))

As the Chief Executive Office of Systemax Inc., and required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual, I hereby certify that as of the date hereof I am not aware of any violation by the Company of the NYSE's Corporate Governance listing standards, other than has been notified to the Exchange pursuant to Section 303A.12(b) and disclosed as an attachment hereto.

/s/ RICHARD LEEDS

Richard Leeds

Chief Executive Officer

Date: March 26, 2004

INDEPENDENT AUDITORS' REPORT

The Shareholders and Board of Directors of
SYSTEMAX INC.:

We have audited the accompanying consolidated balance sheets of Systemax Inc. and its subsidiaries, (the "Company"), as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for accounting for goodwill and other intangible assets in 2002 to conform to Financial Accounting Standards Board Statement No. 142 ("Goodwill and Other Intangible Assets").

/s/ DELOITTE & TOUCHE LLP
New York, New York
March 12, 2004

SYSTEMAX INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(IN THOUSANDS, except for share data)

	2003	2002
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$38,702	$62,995
Accounts receivable, net of allowances of $10,000 (2003) and $11,275 (2002)	152,435	148,554
Inventories	133,905	98,401
Prepaid expenses and other current assets	26,849	31,343
Deferred income tax assets	10,132	9,073
Total current assets	362,023	350,366
PROPERTY, PLANT AND EQUIPMENT, net	68,647	71,133
DEFERRED INCOME TAX ASSETS	14,606	15,100
OTHER ASSETS	376	1,305
TOTAL	$445,652	$437,904
LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Short-term borrowings, including current portions of long-term debt	$20,814	$21,211
Accounts payable	141,106	131,510
Accrued expenses and other current liabilities	51,037	64,349
Total current liabilities	212,957	217,070
LONG-TERM DEBT	18,353	17,519
OTHER LIABILITIES	1,768	1,398
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 38,231,990 shares; outstanding 34,288,068 (2003) and 34,104,290 (2002) shares	382	382
Additional paid-in capital	175,343	176,743
Accumulated other comprehensive income (loss), net of tax	2,157	(2,130)
Retained earnings	81,022	75,411
	258,904	250,406
Less: common stock in treasury at cost - 3,943,922 (2003) and 4,127,700 (2002) shares	46,330	48,489
Total shareholders' equity	212,574	201,917
TOTAL	$445,652	$437,904

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(IN THOUSANDS, EXCEPT PER COMMON SHARE AMOUNTS)

	2003	2002	2001
Net sales	$1,657,778	$1,551,517	$1,546,975
Cost of sales	1,389,509	1,285,929	1,270,051
Gross profit	268,269	265,588	276,924
Selling, general and administrative expenses	251,460	256,075	271,636
Restructuring and other charges	1,726	17,294	2,758
Goodwill impairment	2,560		
Income (loss) from operations	12,523	(7,781)	2,530
Interest and other income, net	(755)	(427)	(276)
Interest expense	2,344	1,653	1,764
Income (loss) before income taxes	10,934	(9,007)	1,042
Provision (benefit) for income taxes	5,323	(1,039)	389
Income (loss) before cumulative effect of change in accounting principle, net of tax	5,611	(7,968)	653
Cumulative effect of change in accounting principle, net of tax		(50,971)	

Net income (loss)	$5,611	$(58,939)	$653
Net income (loss) per common share, basic and diluted:			
Income (loss) before cumulative effect of change in accounting principle, net of tax	$.16	$(.23)	$.02
Cumulative effect of change in accounting principle, net of tax		(1.50)	
Net income (loss)	$.16	$(1.73)	$.02

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(IN THOUSANDS)

	Common Stock						
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Treasury Stock At Cost	Comprehensive Income (Loss), Net of Tax
Balances, January 1, 2001	34,104	$382	$176,743	$133,697	$(6,662)	$(48,489)	
Change in cumulative translation adjustment					(1,376)		$(1,376)
Net income				653			653
Total comprehensive loss							$(723)
Balances, December 31, 2001	34,104	382	176,743	134,350	(8,038)	(48,489)	
Change in cumulative translation adjustment					5,908		$5,908
Net loss				(58,939)			(58,939)
Total comprehensive loss							$(53,031)
Balances, December 31, 2002	34,104	382	176,743	75,411	(2,130)	(48,489)	
Change in cumulative translation adjustment					4,287		$4,287
Exercise of stock options	184		(1,400)			2,159	
Net income				5,611			5,611
Total comprehensive income							$9,898
Balances, December 31, 2003	34,288	$382	$175,343	$81,022	$2,157	$(46,330)	

See notes to consolidated financial statements.

SYSTEMAX INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001
(IN THOUSANDS)

	2003	2002	2001
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income (loss)	$5,611	$(58,939)	$653
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Cumulative effect of change in accounting principle, net of tax		50,971	

Goodwill impairment	2,560		
Loss on dispositions and abandonment	595	14,843	2,003
Depreciation and amortization, net	13,938	13,652	15,143
Provision for deferred income taxes	(1,847)	(3,475)	7,929
Provision for returns and doubtful accounts	3,906	4,581	3,696
Changes in operating assets and liabilities:			
Accounts receivable	6,182	(5,922)	40,124
Inventories	(30,089)	(2,644)	33,946
Prepaid expenses and other current assets	7,972	(8,422)	9,048
Income taxes receivable	(3,915)	7,755	19,445
Accounts payable, accrued expenses and other current liabilities	(11,861)	(7,532)	(36,381)
Net cash provided by (used in) operating activities	(6,948)	4,868	95,606
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:			
Investments in property, plant and equipment	(8,699)	(15,367)	(24,682)
Proceeds from disposals of property, plant and equipment	11	635	856
Purchase of minority interest	(2,560)		
Net cash used in investing activities	(11,248)	(14,732)	(23,826)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Issuance of long-term borrowings and capital lease obligations	1,534	18,879	
Proceeds (repayments) of borrowings from banks	(2,951)	15,253	(45,762)
Repayments of long-term debt and capital lease obligations	(1,257)	(348)	
Exercise of stock options	759		
Net cash provided by (used in) financing activities	(1,915)	33,784	(45,762)
EFFECTS OF EXCHANGE RATES ON CASH	(4,182)	2,611	(4,050)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,293)	26,531	21,968
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	62,995	36,464	14,496
CASH AND CASH EQUIVALENTS - END OF YEAR	$38,702	$62,995	$36,464
SUPPLEMENTAL DISCLOSURES:			
Interest paid	$2,697	$1,375	$2,026
Income taxes paid	$13,840	$5,397	$3,819

See notes to consolidated financial statements.

SYSTEMAX INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The equity method of accounting is used for the Company's investment in a 50%-owned joint venture. The results of operations of this investee are not material to the results of operations of the Company. The joint venture brokers paper, a significant portion of which is used by the Company in printing its catalogs.

Use of Estimates In Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation - The financial statements of the Company's foreign entities are translated into U.S. dollars, the reporting currency, using year-end exchange rates for balance sheet items and average exchange rates for the statements of operations items. The translation differences are recorded as a separate component of shareholders' equity.

Cash and Cash Equivalents - The Company considers amounts held in money market accounts and other short-term investments with an original maturity date of three months or less to be cash equivalents. The Company's investments in cash equivalents are classified as debt securities available-for-sale and are stated at fair market value. Unrealized holding gains and losses are not significant for any of the years presented.

Inventories - Inventories consist primarily of finished goods and are stated at the lower of cost or market value. Cost is determined by using the first-in, first-out method.

Property, Plant and Equipment - Property, plant and equipment is stated at cost. Depreciation of furniture, fixtures and equipment is on the straight-line or accelerated method over their estimated useful lives ranging from three to ten years. Depreciation of buildings is on the straight-line method over estimated useful lives of 30 to 50 years. Leasehold improvements are amortized over the lesser of the useful lives or the term of the respective leases.

Capitalized Software Costs - The Company capitalizes purchased software ready for service and capitalizes software development costs incurred on significant projects from the time that the preliminary project stage is completed and management commits to funding a project until the project is substantially complete and the software is ready for its intended use. Capitalized costs include materials and service costs and payroll and payroll-related costs. Capitalized software costs are amortized using the straight-line method over the estimated useful life of the underlying system, generally five years.

Goodwill - The cost in excess of fair value of net assets of businesses acquired is recorded in the consolidated balance sheets as "Goodwill." In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", the Company ceased amortization of goodwill effective January 1, 2002. Prior to the adoption of SFAS 142, goodwill was amortized on a straight-line basis over periods of 10 to 40 years. Amortization expense was $1,605,000 in 2001. The Company completed the transitional impairment analysis required under SFAS 142 during 2002, which resulted in an implied fair value of goodwill of zero. See Note 2 for the impact of the adoption of SFAS 142 on the consolidated financial statements

Evaluation of Long-lived Assets - Long-lived assets are evaluated for recoverability in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-lived Assets", whenever events or changes in circumstances indicate that an asset may have been impaired. In evaluating an asset for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss, equal to the excess of the carrying amount over the fair market value of the asset is recognized.

Product Warranties - Provisions for estimated future expenses relating to product warranties for the Company's assembled PCs are recorded as cost of sales when revenue is recorded. Liability estimates are determined based on management judgment considering such factors as the number of units sold, historical and anticipated rates of warranty claims and the likely current cost of corrective action.

Income taxes - Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax laws and rates. Valuation allowances are provided for deferred tax assets to the extent it is more likely than not that deferred tax assets will not be recoverable against future taxable income.

Revenue Recognition and Accounts Receivable - The Company recognizes sales of products, including shipping revenue, at the time of shipment. Allowances for estimated subsequent customer returns are provided when revenues are recorded. Costs incurred for the shipping and handling of its products are recorded as cost of sales. Revenue from extended warranty and support contracts on the Company's assembled PCs is deferred and recognized over the contract period.

Accounts receivable are shown in the consolidated balance sheets net of allowances for doubtful collections and subsequent customer returns. The changes in these allowance accounts are summarized as follows (in thousands):

	Years ended December 31,		
	2003	2002	2001

Balance, beginning of year	$11,275	$11,120	$15,329
Charged to expense	3,906	4,581	3,696
Deductions	(5,181)	(4,426)	(7,905)
Balance, end of year	$10,000	$11,275	$11,120

Advertising Costs - Direct response advertising costs, consisting primarily of catalog preparation, printing and postage expenditures are amortized over the period of catalog distribution during which the benefits are expected. Advertising expenditures relating to the Company's national advertising campaign and other television advertising costs are expensed in the period the advertising takes place.

Advertising costs, net of rebates from vendors, of $43.7 million in 2003, $44.1 million in 2002 and $53.0 million in 2001 are included in the accompanying Consolidated Statements of Operations. Effective January 1, 2003 the Company adopted Emerging Issues Task Force ("EITF") Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." EITF 02-16 requires that consideration received from vendors, such as advertising support funds, be accounted for as a reduction of cost of sales unless certain conditions are met showing that the funds are used for a specific program entirely funded by an individual vendor. If these specific requirements related to individual vendors are met, the consideration is accounted for as a reduction in the related expense category, such as advertising expense. EITF 02-16 applies to all agreements modified or entered into on or after January 1, 2003. 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. As a result of prospectively adopting EITF 02-16, the Company has recorded $14.5 million for the year ended December 31, 2003 of vendor consideration as a reduction of cost of sales. Adopting EITF 02-16 had no impact on income (loss) from operations, as the vendor consideration recorded as a reduction of cost of sales would previously have been recorded as a reduction of advertising expense.

Prepaid expenses at December 31, 2003 and 2002 include deferred advertising costs of $4.2 million and $3.6 million, respectively, which are reflected as an expense during the periods benefited, typically the subsequent fiscal quarter.

Research and Development Costs - Costs incurred in connection with research and development are expensed as incurred. Such expenses for the years ended December 31, 2003, 2002 and 2001 aggregated approximately $800,000, $1,036,000 and $1,539,000, respectively.

Derivative Financial Instruments - The Company adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", as amended, effective January 1, 2001. SFAS 133 requires that all derivative financial instruments be recognized as either assets or liabilities in the balance sheet based on their fair values. Changes in the fair values are required to be reported in earnings or other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For derivatives designated as effective cash flow hedges, changes in fair values are recognized in other comprehensive income. Changes in fair values related to fair value hedges as well as the ineffective portion of cash flow hedges are recognized in earnings (see Note 6).

The Company does not use derivative instruments for speculative or trading purposes. Derivative instruments may be used to manage exposures related to changes in foreign currency exchange rates and interest rate risk on variable rate indebtedness.

Net Income (Loss) Per Common Share - The Company calculates net income (loss) per share in accordance with SFAS 128, "Earnings Per Share". Net income (loss) per common share-basic was calculated based upon the weighted average number of common shares outstanding during the respective periods presented. Net income (loss) 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 except in loss periods, where the effect is anti-dilutive. The dilutive effect of outstanding options issued by the Company are reflected in net income (loss) per share – diluted using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options. The weighted average number of stock options outstanding excluded from the computation of diluted earnings per share was 697,000 in 2003, 1,149,000 in 2002 and 1,979,000 in 2001 due to their antidilutive effect.

The weighted average common shares outstanding for the computation of basic earnings per common share for 2003, 2002 and 2001 were 34.2 million, 34.1 million and 34.1 million, respectively. Additionally, in 2003, 715,000 of equivalent common shares and in 2001, 19,000 of equivalent common shares were included for the diluted calculation.

Comprehensive Income (Loss) - Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments and is included in the Consolidated Statements of Shareholders' Equity. Comprehensive income (loss) was $9,898,000 in 2003, $(53,031,000) in 2002 and $(723,000) in 2001, net of tax effects on foreign currency translation adjustments of $(3,030,000) in 2003, $3,483,000 in 2002 and $1,338,000 in 2001.

Stock-based Compensation - The Company has three stock-based compensation plans, two of which are for employees, consultants and advisors and the third of which is for non-employee directors, which are more fully described in Note 8. The Company has elected to follow the accounting provisions of Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" for stock-based compensation and to provide the pro forma disclosures required under SFAS 148, "Accounting for Stock-based Compensation – Transition and Disclosure". No stock-based employee compensation cost is reflected in net income (loss), as all options granted under the plans have an exercise price equal to the market value of the underlying stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings (loss) per share had compensation costs of the plans been determined under a fair value alternative method as stated in SFAS 123, "Accounting for Stock-Based Compensation" (in thousands, except per share data):

	2003	2002	2001
Net income (loss) - as reported	$5,611	$(58,939)	$653
Stock-based employee compensation expense determined under fair value based method, net of related tax effects	544	713	780
Pro forma net income (loss)	$5,067	$(59,652)	$(127)
Basic and diluted net income (loss) per common share:			
Net income (loss) - as reported	$.16	$(1.73)	$.02
Net income (loss) - pro forma	$.15	$(1.75)	-

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

	2003	2002	2001
Expected dividend yield	0%	0%	0%
Risk-free interest rate	5.9%	5.6%	6.1%
Expected volatility	76.0%	71.0%	72.0%
Expected life in years	2.41	2.52	3.17

The weighted average contractual life of the stock options outstanding was 7.7 years at December 31, 2003, 7.8 years at December 31, 2002 and 8.1 years at December 31, 2001.

Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation 45 ("FIN 45") "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", which requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. However, the provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. FIN 45 also elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this Interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN 45 did not have a material effect on the Company's consolidated financial statements.

In December 2003, the FASB issued FIN 46 (Revised) ("FIN 46-R") to address certain FIN 46 implementation issues. This interpretation clarifies the application of Accounting Research Bulletin ("ARB") 51, "Consolidated Financial Statements", for companies that have interests in entities that are Variable Interest Entities (VIE) as defined under FIN 46. According to this interpretation, if a company has an interest in a VIE and is at risk for a majority of the VIE's expected losses or receives a majority of the VIE's expected gains it shall consolidate the VIE. FIN 46-R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. For entities acquired or created before February 1, 2003, this interpretation is effective no later than the end of the first interim or reporting period ending after March 15, 2004, except for those VIE's that are considered to be special purpose entities, for which the effective date is no later than the end of the first interim or annual reporting period ending after December 15, 2003. For all entities that were acquired subsequent to January 31, 2003, this interpretation is effective as of the first interim or annual period ending after December 31, 2003. The Company has adopted FIN 46R and is evaluating the impact of this interpretation on its consolidated financial statements.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies SFAS 133 for the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS 150 are effective for financial instruments entered into or modified after May 31, 2003 and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's consolidated financial statements.

2. BUSINESS COMBINATIONS AND GOODWILL

Effective January 1, 2002, the Company adopted SFAS 142, "Goodwill and Other Intangible Assets," which established new accounting and reporting requirements for goodwill and other intangible assets. SFAS 142 requires that goodwill amortization be discontinued and replaced with periodic tests of impairment. With the adoption of SFAS 142, management determined that the carrying value of the Company was impaired in an amount greater than the carrying value of goodwill at the date of adoption. As required by SFAS 142, the entire carrying value of goodwill was written off. This write-off, $68 million ($51 million or $1.50 per share, net of tax), was reported as a cumulative effect of a change in accounting principle, on a net of tax basis, in the Company's Consolidated Statements of Operations for the year ended December 31, 2002. The adoption of SFAS 142 had no cash flow impact on the Company.

During the second quarter of 2003, the Company purchased the minority ownership of its Netherlands subsidiary pursuant to the terms of the original purchase agreement for approximately $2.6 million. All of the purchase price was attributable to goodwill and, as a result of an impairment analysis, was written off in accordance with SFAS 142.

Adoption of the non-amortization provisions of SFAS 142 as of January 1, 2001 would have increased net income for the year ended December 31, 2001 by $1,126,000, or $.03 per diluted share.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consists of the following (in thousands):

	2003	2002
Land and buildings	$ 46,898	$ 43,268
Furniture and fixtures, office, computer and other equipment	78,327	71,453
Leasehold improvements	14,010	12,660
	139,235	127,381
Less accumulated depreciation and amortization	70,588	56,248
Property, plant and equipment, net	$ 68,647	$ 71,133

4. RELATED PARTY TRANSACTIONS

The Company leased one warehouse and office facility from affiliates during the year ended December 31, 2003 (see Note 10) and vacated a second warehouse and office facility leased from affiliates during 2002. Rent expense under those leases aggregated approximately $612,000 (2003), $1,071,000 (2002) and $1,224,000 (2001).

5. CREDIT FACILITIES

The Company maintains a $70,000,000 revolving credit agreement with a group of financial institutions which provides for borrowings in the United States. The borrowings are secured by all of the domestic accounts receivable and inventories of the Company and the Company's shares of stock in its domestic subsidiaries. The credit facility expires and outstanding borrowings thereunder are due on June 15, 2004. The borrowings under the agreement are subject to borrowing base limitations of up to 75% of eligible accounts receivable and up to 25% of qualified inventories. The interest on outstanding advances is payable monthly, at the Company's option, at the agent bank's base rate (4.25% at December 31, 2003) plus 0.25% to 0.75% or the bank's daily LIBOR rate (2.87% at December 31, 2003) plus 2.25% to 3%. The facility also calls for a commitment fee payable quarterly in arrears of 0.5% of the average daily unused portion of the facility. The revolving credit agreement contains certain financial and other covenants, including restrictions on capital expenditures and payments of dividends. The Company was in compliance with all of the covenants as of December 31, 2003. As of December 31, 2003, availability under the agreement was $49.0 million. There were outstanding letters of credit of $8.0 million as of December 31, 2003 and $6.1 million as of December 31, 2002 and there were no outstanding advances as of December 31, 2003 and December 31, 2002.

The Company also has a £15,000,000 ($26,852,000 at the December 31, 2003 exchange rate) multi-currency credit facility with a United Kingdom financial institution, which is available to its United Kingdom subsidiaries. Drawings under the facility may be made by overdraft, trade acceptance or loan. The facility does not have a termination date, but may be canceled with six months notice beginning in December 2003. Borrowings under the facility are secured by certain assets of the Company's United Kingdom subsidiaries and a portion of the line is subject to a borrowing base limitation of 70% of eligible accounts receivable. At December 31, 2003 there were £7.5 million ($13.3 million) of borrowings outstanding under this line with interest payable at a rate of 5.85%. At December 31, 2002 there were £12.4 million ($20.0 million at the December 31, 2002 exchange rate) of borrowings outstanding under this line with interest payable at a rate of 6.08%.

In October 2003, the Company's Netherlands subsidiary entered into a €5 million ($6,307,000 at the December 31, 2003 exchange rate) credit facility. Borrowings under the facility are secured by the subsidiary's accounts receivable and are subject to a borrowing base limitation of 85% of the eligible accounts. At December 31, 2003 there were €4.5 million ($5.7 million) of borrowings outstanding under this line with interest payable at a rate of 5.0%. The facility expires in November 2005.

The weighted average interest rate on short-term borrowings was 5.2% in 2003, 6.3% in 2002 and 6.6% in 2001.

6. LONG-TERM DEBT

Long-term debt consists of (in thousands):

	2003	2002
Mortgage note payable (a)	$ 8,170	$ 8,319
Term loan payable (b)	10,338	10,360
Capitalized equipment lease obligations	1,591	90
	20,099	18,769
Less: current portion	1,746	1,250
	$18,353	$17,519

(a) Mortgage note payable. The Company has a ten year, $8.4 million mortgage loan on its Georgia distribution facility. The mortgage has monthly principal and interest payments of $62,000 through May 2012, with a final additional principal payment of $6.4 million at maturity in May 2012. The mortgage bears interest at 7.04% and is collateralized by the underlying land and building.

(b) Term loan payable. The Company has a term loan agreement which was used to finance the construction of its United Kingdom facility and which is secured by the underlying land and building. The loan matures in August 2012 and is repayable in quarterly installments of(pound)165,000 ($295,000) plus interest. The outstanding borrowing bears interest at LIBOR plus 160 basis points (5.25% at December 31, 2003 and 5.69% at December 31,2002). The term loan agreement also contains certain financial and other covenants related to the Company's United Kingdom subsidiaries.

In connection with this term loan, the Company also entered into an interest rate collar agreement to reduce its exposure to market rate fluctuations. The collar agreement covers a period of three years, matures in the same amounts and over the same periods as the related debt and has a cap of 6.0% and a floor of 4.5%. This derivative has been designated as a cash flow hedge for accounting purposes. As of December 31, 2003, the notional amount of the interest rate collar was £5,775,000 ($10,338,000). The collar was in a loss position of approximately $39,000 as of December 31, 2003 and $117,000 as of December 31, 2002, and, accordingly, the aggregate fair value of the collar was recorded as a liability. The changes in the fair value of this derivative for the years ended December 31, 2003 and 2002 have been recognized in the Consolidated Statement of Operations as this hedge was determined to be ineffective. The Company considers the credit risk related to the interest rate collar to be low because such instrument was entered into with a financial institution having a high credit rating and is generally settled on a net basis.

The aggregate maturities of long-term debt outstanding at December 31, 2003 are as follows (in thousands):

	2004	2005	2006	2007	2008	After 2008
Maturities	$1,746	$1,740	$1,745	$1,675	$1,516	$11,677

7. RESTRUCTURING AND OTHER CHARGES

The Company periodically assesses its operations to ensure that they are efficient, aligned with market conditions and responsive to customer needs. During the years ended December 31, 2001, 2002 and 2003, management approved and implemented restructuring actions which included workforce reductions and facility consolidations.

In the fourth quarter of 2003, the Company implemented a plan to consolidate the warehousing facilities in its United States computer supplies business. The Company recorded $713,000 of costs related to this plan, including $233,000 of non-cash costs for impairment of the carrying value of fixed assets and $480,000 of charges for other exit costs.

During fiscal 2002 the Company implemented a restructuring plan to consolidate the activities of its three United Kingdom locations into a new facility constructed for the Company. The restructuring plan resulted in a pre-tax charge, included in "Restructuring and other charges", of $4.1 million. Of the total charge, $0.5 million was non-cash for the impairment in carrying value of fixed assets, $1.9 million was for recruitment, staff relocation costs and severance and benefits for approximately 150 terminated employees and $1.7 million was for other exit costs, primarily facilities closing costs and lease termination costs. During the year ended December 31, 2003, the

Company recorded $2.2 million of additional costs, net of reductions, related to this plan as a charge to operations. These charges consisted of $1.6 million of other restructuring activities representing adjustments to the original estimates of lease and contract termination costs and $600,000 of additional non-cash asset impairments related to buildings vacated. Through December 31, 2003, total cash charges of approximately $3.4 million had been expended under this plan.

The Company incurred approximately $750,000 of costs during the year ended December 31, 2001 related to consolidation of one of its domestic warehouses.

The following table summarizes the components of the restructuring charges, the cash payments, non-cash activities, and the remaining accrual as of December 31, 2003:

	Severance and Personnel Costs	Asset Write-downs	Other Exit Costs	Total
Charged to expense in 2002	$1,870	$525	$1,656	$4,051
Amounts utilized	(1,693)	(525)	(851)	(3,069)
Accrued at December 31, 2002	177		805	982
Charged to expense in 2003	63	863	1,985	2,911
Amounts utilized	(177)		(691)	(868)
Accrued at December 31, 2003	$ 63	$863	$2,099	$3,025

In August 2003, the Company settled its litigation with a software developer and reversed a previously recorded liability of $1.3 million which was no longer needed (See Note 10).

During the second quarter of 2003, the Company purchased the minority ownership of its Netherlands subsidiary for approximately $2.6 million, pursuant to the terms of the original purchase agreement. All of the purchase price was attributable to goodwill and, as a result of an impairment analysis, was written off in accordance with SFAS 142.

During the second quarter of 2002 the Company recorded a non-recurring write-off of $13.2 million resulting from its decision to discontinue the development of internal-use computer software.

During the year ended December 31, 2001, approximately $2 million of capitalized costs associated with software projects abandoned were written off.

8. SHAREHOLDERS' EQUITY

As required by law, certain foreign subsidiaries must retain a percentage of shareholders' capital in the respective company. Accordingly, a portion of retained earnings is restricted and not available for distribution to shareholders. Such amount at December 31, 2003 was not material.

Stock Option Plans - The Company has three fixed option 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 1995 Long-term Stock Incentive Plan - This plan allows the Company to issue qualified, non-qualified and deferred compensation stock options, stock appreciation rights, restricted stock and restricted unit grants, performance unit grants and other stock based awards authorized by the Compensation Committee of the Board of Directors. Options issued under this plan expire ten years after the options are granted and generally become exercisable ratably on the third, fourth, and fifth anniversary of the grant date. A maximum total number of 2.0 million shares may be granted under this plan of which a maximum of 800,000 shares may be of restricted stock and restricted stock units. No award shall be granted under this plan after December 31, 2005. A total of 991,828 options were outstanding under this plan as of December 31, 2003.

The 1995 Stock Option Plan for Non-Employee Directors - This plan provides for automatic awards of non-qualified options to directors of the Company who are not employees of the Company or its affiliates. All options granted under this plan will have a ten year term from grant date and are immediately exercisable. A maximum of 100,000 shares may be granted for awards under this plan. This plan will terminate the day following the tenth annual shareholders meeting. A total of 46,000 options were outstanding under this plan as of December 31, 2003.

The 1999 Long-term Stock Incentive Plan, as amended - This plan was adopted on October 25, 1999 with substantially the same terms and provisions as the 1995 Long-term Stock Incentive Plan, restricting the awards to non-qualified stock options authorized by the Compensation Committee of the Board of Directors. A maximum of 5.0 million shares may be granted under this plan. No award shall be granted under this plan after December 31, 2009. A total of 1,783,474 options were outstanding under this plan as of December 31, 2003.

The following table reflects the plan activity for the years ended December 31, 2003, 2002 and 2001:

	For Shares	Option Prices
Outstanding, January 1, 2001	2,126,632	$ 7.19 to $39.06
Granted	849,917	$ 1.95 to $ 2.45
Cancelled	(1,301,058)	$ 1.95 to $26.88
Outstanding, December 31, 2001	1,675,491	$ 1.95 to $39.06
Granted	591,375	$ 3.05 to $ 3.39
Cancelled	(175,551)	$ 1.95 to $18.41
Outstanding, December 31, 2002	2,091,315	$ 1.95 to $39.06
Granted	1,072,700	$ 1.76 to $ 3.36
Exercised	(184,341)	$ 1.76 to $ 3.05
Cancelled	(158,372)	$ 1.76 to $39.06
Outstanding, December 31, 2003	2,821,302	$ 1.76 to $18.41

The following table summarizes information for the three years ended December 31, 2003 concerning currently outstanding and exercisable options:

	2003		2002		2001	
	Shares	Weighted-Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,091,315	$ 5.01	1,675,491	$ 6.05	2,126,632	$14.70
Granted	1,072,700	$ 1.80	591,375	$ 3.05	849,917	$ 1.96
Exercised	(184,341)	$ 2.27				
Cancelled	(158,372)	$ 9.68	(175,551)	$ 8.36	(1,301,058)	$17.52
Outstanding at end of year	2,821,302	$ 3.70	2,091,315	$ 5.01	1,675,491	$ 6.05
Options exercisable at year end..	1,483,287		1,093,294		478,413	
Weighted average fair value per option granted during the year.	$0.81		$0.67		$0.89	

As of December 31, 2003:

Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 1.76 to $ 5.00	2,152,602	8.42	$ 2.15	814,587	$ 2.69
$ 5.01 to $ 15.00	583,700	5.80	$ 7.42	583,700	$ 7.42
$ 15.01 to $ 18.41	85,000	2.34	$ 17.62	85,000	$ 17.62
$ 1.76 to $ 18.41	2,821,302	7.69	$ 3.70	1,483,287	$ 5.41

9. INCOME TAXES

The components of income (loss) before income taxes are as follows (in thousands):

Years Ended December 31	2003	2002	2001
United States	$ 18,359	$ (6,731)	$(10,390)
Foreign	(7,425)	(2,276)	11,432
Total	$ 10,934	$ (9,007)	$ 1,042

The provision (benefit) for income taxes consists of the following (in thousands):

Years Ended December 31	2003	2002	2001
Current:			
Federal	$ 5,247	$ (3,037)	$ (9,256)
State	709	758	(730)
Foreign	1,214	4,715	2,446
Total current	7,170	2,436	(7,540)
Deferred:			
Federal	1,932	(3,800)	6,777
State	(864)	(604)	585
Foreign	(2,915)	929	567
Total deferred	(1,847)	(3,475)	7,929
Total	$ 5,323	$ (1,039)	$ 389

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 (benefit) and the computed income tax expense based on the Federal statutory corporate rate is as follows (in thousands):

Years Ended December 31	2003	2002	2001
Income tax (benefit) at Federal statutory rate	$ 3,827	$(3,152)	$ 365
State and local income taxes, net of federal tax benefit	461	(111)	145
Non-deductible goodwill impairment	900		
Tax credits		(906)	
Foreign operating losses with no benefit provided	158	542	575
Foreign income taxed at different rates	91	949	
Change in valuation allowances	(1,174)	288	(1,118)
Prior year assessments		1,318	
Other items, net	1,060	33	422
	$ 5,323	$(1,039)	$ 389

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

	2003	2002
Current:		
Deductible assets	$ (640)	$ (855)
Accrued expenses and other liabilities	11,069	10,700
Non-deductible assets	837	615
Other	(436)	183
Valuation allowances	(698)	(1,570)
Total current	10,132	9,073

Non-current:		
Net operating loss and credit carryforwards	8,766	4,359
Foreign currency translation adjustments	(1,635)	1,395
Accelerated depreciation	(1,539)	(853)
Intangible and other assets	13,630	15,137
Valuation allowances	(4,616)	(4,938)
Total non-current	14,606	15,100
Total	$24,738	$24,173

The Company has not provided for federal income taxes applicable to the undistributed earnings of its foreign subsidiaries of $13.9 million as of December 31, 2003, since these earnings are indefinitely reinvested. The Company has foreign net operating loss carryforwards which expire from 2004 through 2008 except for carryforwards in the Netherlands, which have no expiration. In accordance with SFAS 109 "Accounting for Income Taxes", 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 net operating loss carryforwards where it is not likely they will be realized.

The Company's federal income tax returns for fiscal years 2000 through 2002 are currently being audited by the Internal Revenue Service. Although proposed adjustments have not been received for these years and the outcome of tax audits is always uncertain, management believes the ultimate outcome of the audit will not have a material adverse impact on the Company's consolidated financial statements.

10. 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 February 2014. The Company currently leases one facility in New York from an entity owned by the Company's three principal shareholders and senior executive officers (see Note 4).

At December 31, 2003, the future minimum annual lease payments for related and third-party leases were as follows (in thousands):

	Capitalized Leases	Third Party Operating Leases	Related Party Operating Lease	Total
2004	$433	$6,666	$612	$7,711
2005	403	6,516	612	7,531
2006	388	5,899	612	6,899
2007	299	5,002	612	5,913
2008	125	3,984		4,109
2009-2013		11,031		11,031
2014		32		32
Total minimum lease payments	1,648	$39,130	$2,448	$43,226
Less amount representing interest	57			
Present value of minimum capitalized lease payments (including current portion of $405)	$1,591			

Assets recorded under capital leases are included in Property, Plant and Equipment as follows (in thousands):

	December 31, 2003	December 31, 2002
Furniture and fixtures, office, computer and other equipment	$1,680	$117
Accumulated amortization	123	26
	$1,557	$ 91

Annual rent expense aggregated approximately $7,693,000, including $612,000 to related parties, for 2003, $8,164,000, including $1,071,000 to related parties, for 2002 and $7,869,000, including $1,224,000 to related parties, for 2001.

Guarantees - The Company has provided financial guarantees from time to time to a number of vendors on behalf of its 50%-owned joint venture (see Note 1) for trade obligations in the normal course of its business. The amount of such guarantees is limited to $7 million pursuant to the terms of the Company's revolving credit agreement. As of December 31, 2003 the amount of such guarantees totaled $1.5 million. The Company has not been required to perform on any of these guarantees and, as a result, estimates that the fair value of these guarantees is minimal. Accordingly, the Company has recorded no liabilities for these guarantees at December 31, 2003.

Litigation - In August 2003 the Company entered into a settlement agreement with a software developer of a new customer order management software system that was being written for the Company's internal use. The specific terms of the settlement agreement are confidential; however, none of the terms had a material effect on the business or the consolidated financial statements of the Company.

The Company has also been named as a defendant in other lawsuits in the normal course of its business, including those involving commercial, tax, employment and intellectual property related claims. Management of the Company, based on discussions with legal counsel, believes the ultimate resolution of these lawsuits will not have a material effect on the Company's consolidated financial statements.

Contingency - The Company is required to collect sales tax on certain of its sales. In accordance with current laws, approximately 16% of the Company's 2003, 2002 and 2001 domestic sales were subject to sales tax. Changes in law could require the Company to collect sales tax in additional states.

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 such plans was approximately $408,000 in 2003, $442,000 in 2002 and $482,000 in 2001.

Liabilities accrued by certain foreign entities for employee termination indemnities, determined in accordance with labor laws and labor agreements in effect in the respective country, were not material.

Foreign Exchange Risk Management - The Company has no involvement with derivative financial instruments and does not use them for trading purposes. The Company may enter into foreign currency options or forward exchange contracts to hedge certain foreign currency transactions. The intent of this practice would be to minimize the impact of foreign exchange rate movements on the Company's operating results. As of December 31, 2003, the Company had no outstanding forward exchange contracts.

Fair Value of Financial Instruments - Financial instruments consist primarily of investments in cash, trade account receivables, accounts payable and debt obligations. The Company estimates the fair value of financial instruments based on interest rates available to the Company and by comparison to quoted market prices. At December 31, 2003 and 2002, the carrying amounts of cash and cash equivalents, accounts receivable, income taxes receivable and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The carrying amounts of the notes payable to banks and the term loan payable are considered to be representative of their respective fair values as their interest rates are based on market rates. The estimated fair value of the Company's mortgage loan payable was $8.8 million at December 31, 2003 and 2002.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, cash equivalents and accounts receivable. 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.

11. SEGMENT AND RELATED INFORMATION

Pursuant to SFAS 131 "Disclosure About Segments of an Enterprise and Related Information", the Company determined that it is engaged in a single reportable segment which markets and sells various business products. The Company's product offerings include personal computers (PCs), computer related products, industrial products and office products and are monitored for sales trends and profitability in these sub-categories. Products are marketed through an integrated system of direct mail catalogs, a network of major account sales representatives and proprietary e-commerce Internet web-sites.

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

	Net Sales		
	2003	2002	2001
North America	$1,026,233	$ 963,805	$ 982,615
Europe	631,545	587,712	564,360
Consolidated	$1,657,778	$1,551,517	$1,546,975

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

	Long-Lived Assets	
	2003	2002
North America	$ 36,571	$ 41,832
Europe	32,076	29,301
Consolidated	$ 68,647	$ 71,133

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data is as follows (in thousands, except for per share amounts):

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 426,461	$ 388,798	$ 405,011	$ 437,508
Gross profit	$ 72,478	$ 63,525	$ 67,111	$ 65,155
Net income (loss)	$ 5,035	$ (1,864)	$ 1,907	$ 533
Net income (loss) per common share:				
Basic	$ .15	$ (.05)	$ .06	$ .02
Diluted	$ .15	$ (.05)	$ .05	$ .02

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 412,260	$ 363,771	$ 372,139	$ 403,347
Gross profit	$ 73,848	$ 61,939	$ 62,726	$ 67,075
Net income (loss)	$ (50,386)	$ (8,827)	$ (727)	$ 1,001
Net income (loss) per common share:				
Basic and diluted	$ (1.48)	$ (.26)	$(.02)	$ .03