
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

**CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934**

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): November 14, 2013

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(STATE OR OTHER JURISDICTION
OF INCORPORATION)

000-28275
(COMMISSION
FILE NUMBER)

75-2837058
(IRS EMPLOYER
IDENTIFICATION NO.)

505 MILLENNIUM DRIVE
ALLEN, TX 75013
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(972) 881-2900
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

N/A
(FORMER NAME OR ADDRESS, IF CHANGED SINCE LAST REPORT)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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INFORMATION TO BE INCLUDED IN THE REPORT

ITEM 2.02. Results of Operations and Financial Condition

On November 14, 2013, PFSweb, Inc. issued a press release announcing its financial results for the quarter ended September 30, 2013. Attached to this current report on Form 8-K is a copy of the related press release dated November 14, 2013. The information in this Report on Form 8-K, and the exhibit hereto, shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section.

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|----------------------------------------|
| 99.1 | Press Release Issued November 14, 2013 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PFSweb, Inc.

Dated: November 15, 2013

By: /s/ Thomas J. Madden

Thomas J. Madden
Executive Vice President,
Chief Financial and
Accounting Officer



Contact:
 Mike Willoughby
 Chief Executive Officer
 or Thomas J. Madden
 Chief Financial Officer
 (972) 881-2900

Todd Fromer / Garth Russell
 Investor Relations
 KCSA Strategic Communications
 (212) 896-1215 / (212) 896-1250
 tfromer@kcsa.com / grussell@kcsa.com

PFSweb Reports Third Quarter 2013 Results

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Strong Recent Client Wins Expected to Fuel Future Growth

Allen, Texas, November 14, 2013 — **PFSweb, Inc. (Nasdaq: PFSW)**, an international provider of end-to-end eCommerce solutions, today announced its financial results for the quarter ended September 30, 2013.

“During the third quarter, we continued to make progress toward driving PFSweb to sustainable, profitable, long-term growth through new and expanded client relationships and our continued focus on driving operational efficiencies through the business,” stated Mike Willoughby, Chief Executive Officer of PFSweb. “In September, we signed a contract to develop and deploy an end-to-end solution for the United States Mint. The contract win came on the heels of a number of successful program launches during the period, including TJ Maxx and two L’Oreal USA brands: Clarisonic and em michelle phan. We believe our recent success in winning new business and launching new programs demonstrates the quality of our eCommerce solutions and the traction we enjoy in the marketplace. Our current business pipeline remains strong at approximately \$45 million in average annual contract value based on client projections, following the transition of the United States Mint into implementation status.”

Mr. Willoughby continued, “Our financial results for the quarter ended September 2013 were impacted by previously announced client transitions, partially offset by growth in new and existing clients, including project work, and the impact of our ongoing cost control efforts. As previously mentioned, we expect to see sequential improvement in the fourth quarter as we realize further benefit from new and expanded client relationships and also experience higher volumes during the holiday season. Based on our projections, we are reiterating our 2013 Service Fee Equivalent Revenue guidance of \$110 million to \$115 million and our Adjusted EBITDA guidance of \$9 million to \$10.5 million, and currently expect to be toward the higher end of the range for both targets.”

Summary of consolidated results for the third quarter ended September 30, 2013:

- Service Fee revenue decreased 15% to \$23.9 million, compared to \$28.3 million for the same period in 2012; Service Fee Equivalent Revenue (as defined) decreased 17% to \$25.2 million, compared to \$30.2 million for the same period in 2012;
- Total revenue decreased 17% to \$53.6 million, compared to \$64.8 million for the third quarter of 2012;

- Adjusted EBITDA (as defined) decreased to \$1.4 million, compared to \$2.8 million for the same period in 2012;
- Net loss was \$2.0 million, or \$0.12 per basic and diluted share, compared to net loss of \$0.4 million, or \$0.03 per basic and diluted share, for the third quarter of 2012;
- Non-GAAP net loss (as defined) was \$1.3 million, or \$0.08 per basic and diluted share, compared to non-GAAP net loss of 62,000, or less than \$0.01 per basic and diluted share, for the quarter ended September 30, 2012.

Summary of consolidated results for the nine months ended September 30, 2013:

- Service Fee revenue decreased 7% to \$78.7 million, compared to \$85.0 million for the same period in 2012; Service Fee Equivalent Revenue (as defined) decreased 10% to \$83.2 million, compared to \$92.0 million for the same period in 2012;
- Total revenue decreased 15% to \$174.9 million, compared to \$204.6 million for the first nine months of 2012;
- Adjusted EBITDA (as defined) decreased to \$6.8 million, compared to \$8.2 for the same period in 2012;
- Net loss was \$5.5 million, or \$0.38 per basic and diluted share, compared to net loss of \$2.2 million, or \$0.17 per basic and diluted share, for the same period in 2012;
- Non-GAAP net loss (as defined) was \$1.7 million, or \$0.12 per basic and diluted share, compared to non-GAAP net income of \$0.2 million, or \$0.01 per basic and diluted share, for the 2012 period.

Mr. Willoughby continued, “Looking toward 2014, we expect to complete our recovery from the impact of the previously announced client transitions as we benefit from our 2013 restructuring activities and the onset of new client contracts, including the United States Mint. At this time, we are targeting 2014 Service Fee Equivalent Revenue to be in the range of \$127 million to \$133 million and Adjusted EBITDA to be in the range of \$12 million to \$14 million. With the anticipated launch of the United States Mint contract in the third quarter of 2014, we expect the new contract revenue to be substantially back-loaded during the year.”

Conference Call Information

Management will host a conference call at 11:00 am Eastern Time (10:00 am Central Time) on Thursday, November 14, 2013, to discuss the latest corporate developments and results. To listen to the call, please dial (888) 562-3356 and enter pin number 93467776 at least five minutes before the scheduled start time. Investors can also access the call in a “listen only” mode via the Internet at the Company’s website, www.pfsweb.com or www.kcsa.com. Please allow extra time prior to the call to visit the site and download any necessary audio software.

A digital replay of the conference call will be available through December 14, 2013 at (855) 859-2056, pin number 93467776. The replay also will be available at the Company’s website for a limited time.

Non-GAAP Financial Measures

This news release may contain certain non-GAAP measures, including non-GAAP net income (loss), Earnings Before Interest, Income Taxes, Depreciation and Amortization (“EBITDA”), Adjusted EBITDA and Service Fee Equivalent Revenue.

Non-GAAP net income (loss) represents net income (loss) calculated in accordance with U.S. GAAP as adjusted for the impact of non-cash stock-based compensation expense, restructuring and other charges, lease termination costs and certain move related expenses.

EBITDA represents earnings (or losses) before interest, income taxes, depreciation, and amortization. Adjusted EBITDA further eliminates the effect of stock-based compensation, restructuring and other charges, lease termination costs and certain move related expenses.

Service Fee Equivalent Revenue represents service fee revenue plus the gross profit earned on product revenue.

Non-GAAP net income (loss), EBITDA, Adjusted EBITDA and Service Fee Equivalent Revenue are used by management, analysts, investors and other interested parties in evaluating our operating performance compared to that of other companies in our industry. The calculation of non-GAAP net income (loss) eliminates the effect of stock-based compensation, restructuring and other charges, lease termination costs and certain move related expenses and EBITDA and Adjusted EBITDA further eliminate the effect of financing, income taxes and the accounting effects of capital spending, which items may vary from different companies for reasons unrelated to overall operating performance. Service Fee Equivalent Revenue allows client contracts with similar operational support models but different financial models to be combined as if all contracts were being operated on a service fee revenue basis.

PFSweb believes these non-GAAP measures provide useful information to both management and investors by excluding certain expenses that may not be indicative of its core operating results. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. The non-GAAP measures included in this press release have been reconciled to the GAAP results in the attached tables.

About PFSweb, Inc.

PFSweb is engaged by iconic brands to enable and manage customized eCommerce and omni-channel commerce initiatives. PFSweb's iCommerce Hub(SM) technology ecosystem offers retailers a multi-channel order management system that allows partner/client data integration and international payment processing. PFSweb's iCommerce Professional Service(SM) provides interactive marketing services, eCommerce web site development and support services, IT development services, product content management, customer intelligence and relationship and account management services. PFSweb's iCommerce Centers of Excellence(SM) provides global fulfillment and logistics, high-touch customer care and client financial services.

Together, PFSweb's iCommerce Solutions allow for international reach and expertise in both direct-to-consumer and business-to-business initiatives. PFSweb supports organizations across multiple industries including Procter & Gamble, L'Oreal, LEGO, Columbia Sportswear, Sorel, Carter's, AAFES, Riverbed, Ricoh, Hawker Beechcraft Corp, Roots Canada Ltd., Diageo, BCBGMAXAZRIA, BCBGENERATION, HERVÉ LÉGER BY MAX AZRIA, The TJX Companies, Inc., T.J. Maxx, and the United States Mint. PFSweb is headquartered in Allen, TX with additional locations in Tennessee, Mississippi, Canada, Belgium, and the Philippines.

To find out more about PFSweb (NASDAQ: PFSW), visit the company's website at <http://www.PFSweb.com>.

The matters discussed herein consist of forward-looking information under the Private Securities Litigation Reform Act of 1995 and is subject to and involves risks and uncertainties, which could cause actual results to differ materially from the forward-looking information. PFSweb's Annual Report on Form 10-K for the year ended December 31, 2012 and Quarterly Report on Form 10-Q for the three and six months ended June 30, 2013 identify certain factors that could cause actual results to differ materially from those projected in any forward looking statements made and investors are advised to review the Annual and Quarterly Reports of the Company and the Risk Factors described therein. PFSweb undertakes no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future. There may be additional risks that we do not currently view as material or that are not presently known.

(Financial Tables Below)

PFSweb, Inc. and Subsidiaries
Preliminary Unaudited Condensed Consolidated Statements of Operations (A)
(In Thousands, Except Per Share Data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| REVENUES: | | | | |
| Product revenue, net | \$21,495 | \$27,476 | \$ 69,660 | \$ 91,450 |
| Service fee revenue | 23,908 | 28,260 | 78,708 | 85,022 |
| Pass-thru revenue | 8,150 | 9,018 | 26,511 | 28,121 |
| Total revenues | <u>53,553</u> | <u>64,754</u> | <u>174,879</u> | <u>204,593</u> |
| COSTS OF REVENUES: | | | | |
| Cost of product revenue | 20,221 | 25,538 | 65,215 | 84,483 |
| Cost of service fee revenue | 16,196 | 20,777 | 53,265 | 63,130 |
| Cost of pass-thru revenue | 8,150 | 9,018 | 26,511 | 28,121 |
| Total costs of revenues | <u>44,567</u> | <u>55,333</u> | <u>144,991</u> | <u>175,734</u> |
| Gross profit | 8,986 | 9,421 | 29,888 | 28,859 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| | 10,656 | 9,401 | 34,395 | 29,807 |
| Income (loss) from operations | (1,670) | 20 | (4,507) | (948) |
| INTEREST EXPENSE (INCOME), NET | | | | |
| | 162 | 236 | 564 | 758 |
| Income (loss) before income taxes | (1,832) | (216) | (5,071) | (1,706) |
| INCOME TAX PROVISION (BENEFIT) | | | | |
| | 120 | 154 | 411 | 457 |
| NET INCOME (LOSS) | <u>\$ (1,952)</u> | <u>\$ (370)</u> | <u>\$ (5,482)</u> | <u>\$ (2,163)</u> |
| NON-GAAP INCOME (LOSS) | <u>\$ (1,342)</u> | <u>\$ (62)</u> | <u>\$ (1,742)</u> | <u>\$ 167</u> |
| NET INCOME (LOSS) PER SHARE: | | | | |
| Basic | <u>\$ (0.12)</u> | <u>\$ (0.03)</u> | <u>\$ (0.38)</u> | <u>\$ (0.17)</u> |
| Diluted | <u>\$ (0.12)</u> | <u>\$ (0.03)</u> | <u>\$ (0.38)</u> | <u>\$ (0.17)</u> |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: | | | | |
| Basic | <u>16,121</u> | <u>12,783</u> | <u>14,490</u> | <u>12,777</u> |
| Diluted | <u>16,121</u> | <u>12,783</u> | <u>14,490</u> | <u>12,777</u> |
| EBITDA | <u>\$ 767</u> | <u>\$ 2,522</u> | <u>\$ 3,026</u> | <u>\$ 5,886</u> |
| ADJUSTED EBITDA | <u>\$ 1,377</u> | <u>\$ 2,830</u> | <u>\$ 6,766</u> | <u>\$ 8,216</u> |

(A) The financial data above should be read in conjunction with the audited consolidated financial statements of PFSweb, Inc. included in its Form 10-K for the year ended December 31, 2012.

PFSweb, Inc. and Subsidiaries
Reconciliation of certain Non-GAAP Items to GAAP
(In Thousands, Except Per Share Data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| NET INCOME (LOSS) | \$ (1,952) | \$ (370) | \$ (5,482) | \$ (2,163) |
| Income tax expense | 120 | 154 | 411 | 457 |
| Interest expense, net | 162 | 236 | 564 | 758 |
| Depreciation and amortization | 2,437 | 2,502 | 7,533 | 6,834 |
| EBITDA | \$ 767 | \$ 2,522 | \$ 3,026 | \$ 5,886 |
| Stock-based compensation | 610 | 308 | 1,195 | 1,014 |
| Restructuring and other charges | — | — | 2,545 | — |
| Lease terminations costs | — | — | — | 450 |
| Move related expenses | — | — | — | 866 |
| ADJUSTED EBITDA | \$ 1,377 | \$ 2,830 | \$ 6,766 | \$ 8,216 |
| | | | | |
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| NET INCOME (LOSS) | \$ (1,952) | \$ (370) | \$ (5,482) | \$ (2,163) |
| Stock-based compensation | 610 | 308 | 1,195 | 1,014 |
| Restructuring and other charges | — | — | 2,545 | — |
| Lease terminations costs | — | — | — | 450 |
| Move related expenses | — | — | — | 866 |
| NON-GAAP INCOME (LOSS) | \$ (1,342) | \$ (62) | \$ (1,742) | \$ 167 |
| NET INCOME (LOSS) PER SHARE: | | | | |
| Basic | <u>\$ (0.12)</u> | <u>\$ (0.03)</u> | <u>\$ (0.38)</u> | <u>\$ (0.17)</u> |
| Diluted | <u>\$ (0.12)</u> | <u>\$ (0.03)</u> | <u>\$ (0.38)</u> | <u>\$ (0.17)</u> |
| NON-GAAP INCOME (LOSS) Per Share: | | | | |
| Basic | <u>\$ (0.08)</u> | <u>\$ (0.00)</u> | <u>\$ (0.12)</u> | <u>\$ 0.01</u> |
| Diluted | <u>\$ (0.08)</u> | <u>\$ (0.00)</u> | <u>\$ (0.12)</u> | <u>\$ 0.01</u> |
| | | | | |
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| TOTAL REVENUES | \$ 53,553 | \$ 64,754 | \$ 174,879 | \$ 204,593 |
| Pass-thru revenue | (8,150) | (9,018) | (26,511) | (28,121) |
| Cost of product revenue | (20,221) | (25,538) | (65,215) | (84,483) |
| SERVICE FEE EQUIVALENT REVENUE | \$ 25,182 | \$ 30,198 | \$ 83,153 | \$ 91,989 |

PFSweb, Inc. and Subsidiaries
Preliminary Unaudited Condensed Consolidated Balance Sheets
(In Thousands, Except Share Data)

| | September 30, 2013 | December 31, 2012 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 21,293 | \$ 19,626 |
| Restricted cash | 466 | 283 |
| Accounts receivable, net of allowance for doubtful accounts of \$367 and \$450 at September 30, 2013 and December 31, 2012, respectively | 37,715 | 45,684 |
| Inventories, net of reserves of \$1,688 and \$1,789 at September 30, 2013 and December 31, 2012, respectively | 17,326 | 24,654 |
| Other receivables | 7,645 | 7,675 |
| Prepaid expenses and other current assets | 4,590 | 4,346 |
| Total current assets | 89,035 | 102,268 |
| PROPERTY AND EQUIPMENT, net | 26,667 | 27,917 |
| OTHER ASSETS | 2,880 | 3,286 |
| Total assets | 118,582 | 133,471 |
| <u>LIABILITIES AND SHAREHOLDERS EQUITY</u> | | |
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt and capital lease obligations | \$ 8,820 | \$ 16,660 |
| Trade accounts payable | 26,153 | 40,493 |
| Deferred revenue | 9,166 | 6,648 |
| Accrued expenses | 21,299 | 23,097 |
| Total current liabilities | 65,438 | 86,898 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 3,473 | 5,400 |
| DEFERRED REVENUE | 6,177 | 7,562 |
| DEFERRED RENT | 5,142 | 5,560 |
| Total liabilities | 80,230 | 105,420 |
| COMMITMENTS AND CONTINGENCIES | | |
| SHAREHOLDERS' EQUITY: | | |
| Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding | — | — |
| Common stock, \$.001 par value; 35,000,000 shares authorized; 16,199,431 and 12,812,386 shares issued at September 30, 2013 and December 31, 2012, respectively; and 16,165,964 and 12,778,919 shares outstanding as of September 30, 2013 and December 31, 2012, respectively | 16 | 13 |
| Additional paid-in capital | 121,663 | 106,018 |
| Accumulated deficit | (84,891) | (79,409) |
| Accumulated other comprehensive income | 1,689 | 1,554 |
| Treasury stock at cost, 33,467 shares | (125) | (125) |
| Total shareholders' equity | 38,352 | 28,051 |
| Total liabilities and shareholders' equity | \$ 118,582 | \$ 133,471 |

PFSweb, Inc. and Subsidiaries
Preliminary Unaudited Consolidating Statements of Operations
For the Three Months Ended September 30, 2013
(In Thousands)

| | PFSweb | Business & Retail Connect | Eliminations | Consolidated |
|-----------------------------------------------------|-------------------|------------------------------|----------------|-------------------|
| REVENUES: | | | | |
| Product revenue, net | \$ — | \$ 21,495 | \$ — | \$ 21,495 |
| Service fee revenue | 22,123 | 1,785 | — | 23,908 |
| Service fee revenue—affiliate | 2,198 | 312 | (2,510) | — |
| Pass-thru revenue | 8,150 | — | — | 8,150 |
| Total revenues | <u>32,471</u> | <u>23,592</u> | <u>(2,510)</u> | <u>53,553</u> |
| COSTS OF REVENUES: | | | | |
| Cost of product revenue | — | 20,221 | — | 20,221 |
| Cost of service fee revenue | 16,634 | 1,862 | (2,300) | 16,196 |
| Cost of pass-thru revenue | 8,150 | — | — | 8,150 |
| Total costs of revenues | <u>24,784</u> | <u>22,083</u> | <u>(2,300)</u> | <u>44,567</u> |
| Gross profit | 7,687 | 1,509 | (210) | 8,986 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| | 9,510 | 1,356 | (210) | 10,656 |
| Income (loss) from operations | (1,823) | 153 | — | (1,670) |
| INTEREST EXPENSE (INCOME), NET | | | | |
| | 11 | 151 | — | 162 |
| Income (loss) before income taxes | (1,834) | 2 | — | (1,832) |
| INCOME TAX PROVISION (BENEFIT) | | | | |
| | 58 | 62 | — | 120 |
| NET INCOME (LOSS) | | | | |
| | <u>\$ (1,892)</u> | <u>\$ (60)</u> | <u>\$ —</u> | <u>\$ (1,952)</u> |
| NON-GAAP NET INCOME (LOSS) | | | | |
| | <u>\$ (1,282)</u> | <u>\$ (60)</u> | <u>\$ —</u> | <u>\$ (1,342)</u> |
| EBITDA | | | | |
| | <u>\$ 576</u> | <u>\$ 191</u> | <u>\$ —</u> | <u>\$ 767</u> |
| ADJUSTED EBITDA | | | | |
| | <u>\$ 1,186</u> | <u>\$ 191</u> | <u>\$ —</u> | <u>\$ 1,377</u> |

A reconciliation of NET INCOME (LOSS) to EBITDA and ADJUSTED EBITDA follows:

| | | | | |
|---------------------------------|-----------------|---------------|-------------|-----------------|
| NET INCOME (LOSS) | \$ (1,892) | \$ (60) | \$ — | (1,952) |
| Income tax expense (benefit) | 58 | 62 | — | 120 |
| Interest expense (income), net | 11 | 151 | — | 162 |
| Depreciation and amortization | 2,399 | 38 | — | 2,437 |
| EBITDA | <u>\$ 576</u> | <u>\$ 191</u> | <u>\$ —</u> | <u>\$ 767</u> |
| Stock-based compensation | 610 | — | — | 610 |
| Restructuring and other charges | — | — | — | — |
| ADJUSTED EBITDA | <u>\$ 1,186</u> | <u>\$ 191</u> | <u>\$ —</u> | <u>\$ 1,377</u> |

A reconciliation of NET INCOME (LOSS) to NON-GAAP NET INCOME (LOSS) follows:

| | | | | |
|---------------------------------|-------------------|----------------|-------------|-------------------|
| NET INCOME (LOSS) | \$ (1,892) | \$ (60) | \$ — | \$ (1,952) |
| Stock-based compensation | 610 | — | — | 610 |
| Restructuring and other charges | — | — | — | — |
| NON-GAAP NET INCOME (LOSS) | <u>\$ (1,282)</u> | <u>\$ (60)</u> | <u>\$ —</u> | <u>\$ (1,342)</u> |

Note: Business and Retail Connect includes our Supplies Distributors and PFSweb Retail Connect operations, which operate similar financial models on behalf of our client relationships.

PFSweb, Inc. and Subsidiaries
Preliminary Unaudited Consolidating Statements of Operations
For the Nine Months Ended September 30, 2013
(In Thousands)

| | PFSweb | Business & Retail Connect | Eliminations | Consolidated |
|-----------------------------------------------------|-------------------|------------------------------|----------------|-------------------|
| REVENUES: | | | | |
| Product revenue, net | \$ — | \$ 69,660 | \$ — | \$ 69,660 |
| Service fee revenue | 73,868 | 4,840 | — | 78,708 |
| Service fee revenue—affiliate | 6,467 | 1,110 | (7,577) | — |
| Pass-thru revenue | 26,511 | — | — | 26,511 |
| Total revenues | <u>106,846</u> | <u>75,610</u> | <u>(7,577)</u> | <u>174,879</u> |
| COSTS OF REVENUES: | | | | |
| Cost of product revenue | — | 65,215 | — | 65,215 |
| Cost of service fee revenue | 54,815 | 5,161 | (6,711) | 53,265 |
| Cost of pass-thru revenue | 26,511 | — | — | 26,511 |
| Total costs of revenues | <u>81,326</u> | <u>70,376</u> | <u>(6,711)</u> | <u>144,991</u> |
| Gross profit | 25,520 | 5,234 | (866) | 29,888 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | <u>30,673</u> | <u>4,588</u> | <u>(866)</u> | <u>34,395</u> |
| Income (loss) from operations | (5,153) | 646 | — | (4,507) |
| INTEREST EXPENSE (INCOME), NET | <u>113</u> | <u>451</u> | <u>—</u> | <u>564</u> |
| Income (loss) before income taxes | (5,266) | 195 | — | (5,071) |
| INCOME TAX PROVISION (BENEFIT) | <u>200</u> | <u>211</u> | <u>—</u> | <u>411</u> |
| NET INCOME (LOSS) | <u>\$ (5,466)</u> | <u>\$ (16)</u> | <u>\$ —</u> | <u>\$ (5,482)</u> |
| NON-GAAP NET INCOME (LOSS) | <u>\$ (1,726)</u> | <u>\$ (16)</u> | <u>\$ —</u> | <u>\$ (1,742)</u> |
| EBITDA | <u>\$ 2,264</u> | <u>\$ 762</u> | <u>\$ —</u> | <u>\$ 3,026</u> |
| ADJUSTED EBITDA | <u>\$ 6,004</u> | <u>\$ 762</u> | <u>\$ —</u> | <u>\$ 6,766</u> |

A reconciliation of NET INCOME (LOSS) to EBITDA and ADJUSTED EBITDA follows:

| | | | | |
|---------------------------------|-----------------|---------------|-------------|-----------------|
| NET INCOME (LOSS) | \$ (5,466) | \$ (16) | \$ — | (5,482) |
| Income tax expense (benefit) | 200 | 211 | — | 411 |
| Interest expense (income), net | 113 | 451 | — | 564 |
| Depreciation and amortization | 7,417 | 116 | — | 7,533 |
| EBITDA | <u>\$ 2,264</u> | <u>\$ 762</u> | <u>\$ —</u> | <u>\$ 3,026</u> |
| Stock-based compensation | 1,195 | — | — | 1,195 |
| Restructuring and other charges | 2,545 | — | — | 2,545 |
| ADJUSTED EBITDA | <u>\$ 6,004</u> | <u>\$ 762</u> | <u>\$ —</u> | <u>\$ 6,766</u> |

A reconciliation of NET INCOME (LOSS) to NON-GAAP NET INCOME (LOSS) follows:

| | | | | |
|-----------------------------------|-------------------|----------------|-------------|-------------------|
| NET INCOME (LOSS) | \$ (5,466) | \$ (16) | \$ — | \$ (5,482) |
| Stock-based compensation | 1,195 | — | — | 1,195 |
| Restructuring and other charges | 2,545 | — | — | 2,545 |
| NON-GAAP NET INCOME (LOSS) | <u>\$ (1,726)</u> | <u>\$ (16)</u> | <u>\$ —</u> | <u>\$ (1,742)</u> |

Note: Business and Retail Connect includes our Supplies Distributors and PFSweb Retail Connect operations, which operate similar financial models on behalf of our client relationships.

PFSweb, Inc. and Subsidiaries
Unaudited Consolidating Statements of Operations
For the Three Months Ended September 30, 2012
(In Thousands)

| | PFSweb | Business & Retail Connect | Eliminations | Consolidated |
|-----------------------------------------------------|-----------------|------------------------------|----------------|-----------------|
| REVENUES: | | | | |
| Product revenue, net | \$ — | \$ 27,476 | \$ — | \$ 27,476 |
| Service fee revenue | 28,260 | — | — | 28,260 |
| Service fee revenue—affiliate | 1,034 | 143 | (1,177) | — |
| Pass-thru revenue | 9,018 | — | — | 9,018 |
| Total revenues | <u>38,312</u> | <u>27,619</u> | <u>(1,177)</u> | <u>64,754</u> |
| COSTS OF REVENUES: | | | | |
| Cost of product revenue | — | 25,538 | — | 25,538 |
| Cost of service fee revenue | 21,336 | 143 | (702) | 20,777 |
| Cost of pass-thru revenue | 9,018 | — | — | 9,018 |
| Total costs of revenues | <u>30,354</u> | <u>25,681</u> | <u>(702)</u> | <u>55,333</u> |
| Gross profit | 7,958 | 1,938 | (475) | 9,421 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | | | |
| | 8,526 | 1,350 | (475) | 9,401 |
| Income (loss) from operations | (568) | 588 | — | 20 |
| INTEREST EXPENSE (INCOME), NET | | | | |
| | 49 | 187 | — | 236 |
| Income (loss) before income taxes | (617) | 401 | — | (216) |
| INCOME TAX PROVISION (BENEFIT) | | | | |
| | (23) | 177 | — | 154 |
| NET INCOME (LOSS) | | | | |
| | <u>\$ (594)</u> | <u>\$ 224</u> | <u>\$ —</u> | <u>\$ (370)</u> |
| NON-GAAP NET INCOME (LOSS) | | | | |
| | <u>\$ (286)</u> | <u>\$ 224</u> | <u>\$ —</u> | <u>\$ (62)</u> |
| EBITDA | | | | |
| | <u>\$ 1,908</u> | <u>\$ 614</u> | <u>\$ —</u> | <u>\$ 2,522</u> |
| ADJUSTED EBITDA | | | | |
| | <u>\$ 2,216</u> | <u>\$ 614</u> | <u>\$ —</u> | <u>\$ 2,830</u> |

A reconciliation of NET INCOME (LOSS) to EBITDA and ADJUSTED EBITDA follows:

| | | | | |
|--------------------------------|-----------------|---------------|-------------|-----------------|
| NET INCOME (LOSS) | \$ (594) | \$ 224 | \$ — | (370) |
| Income tax expense (benefit) | (23) | 177 | — | 154 |
| Interest expense (income), net | 49 | 187 | — | 236 |
| Depreciation and amortization | 2,476 | 26 | — | 2,502 |
| EBITDA | <u>\$ 1,908</u> | <u>\$ 614</u> | <u>\$ —</u> | <u>\$ 2,522</u> |
| Stock-based compensation | 308 | — | — | 308 |
| ADJUSTED EBITDA | <u>\$ 2,216</u> | <u>\$ 614</u> | <u>\$ —</u> | <u>\$ 2,830</u> |

A reconciliation of NET INCOME (LOSS) to NON-GAAP NET INCOME (LOSS) follows:

| | | | | |
|----------------------------|-----------------|---------------|-------------|----------------|
| NET INCOME (LOSS) | \$ (594) | \$ 224 | \$ — | \$ (370) |
| Stock-based compensation | 308 | — | — | 308 |
| NON-GAAP NET INCOME (LOSS) | <u>\$ (286)</u> | <u>\$ 224</u> | <u>\$ —</u> | <u>\$ (62)</u> |

Note: Business and Retail Connect includes our Supplies Distributors and PFSweb Retail Connect operations, which operate similar financial models on behalf of our client relationships.

PFSweb, Inc. and Subsidiaries
Unaudited Consolidating Statements of Operations
For the Nine Months Ended September 30, 2012
(In Thousands)

| | PFSweb | Business & Retail Connect | Eliminations | Consolidated |
|-----------------------------------------------------|-------------------|------------------------------|----------------|-------------------|
| REVENUES: | | | | |
| Product revenue, net | \$ — | \$ 91,450 | \$ — | \$ 91,450 |
| Service fee revenue | 85,022 | — | — | 85,022 |
| Service fee revenue—affiliate | 3,620 | 451 | (4,071) | — |
| Pass-thru revenue | 28,121 | — | — | 28,121 |
| Total revenues | <u>116,763</u> | <u>91,901</u> | <u>(4,071)</u> | <u>204,593</u> |
| COSTS OF REVENUES: | | | | |
| Cost of product revenue | — | 84,483 | — | 84,483 |
| Cost of service fee revenue | 64,879 | 451 | (2,200) | 63,130 |
| Cost of pass-thru revenue | 28,121 | — | — | 28,121 |
| Total costs of revenues | <u>93,000</u> | <u>84,934</u> | <u>(2,200)</u> | <u>175,734</u> |
| Gross profit | 23,763 | 6,967 | (1,871) | 28,859 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | <u>26,659</u> | <u>5,019</u> | <u>(1,871)</u> | <u>29,807</u> |
| Income (loss) from operations | (2,896) | 1,948 | — | (948) |
| INTEREST EXPENSE (INCOME), NET | <u>140</u> | <u>618</u> | <u>—</u> | <u>758</u> |
| Income (loss) before income taxes | (3,036) | 1,330 | — | (1,706) |
| INCOME TAX PROVISION (BENEFIT) | <u>(92)</u> | <u>549</u> | <u>—</u> | <u>457</u> |
| NET INCOME (LOSS) | <u>\$ (2,944)</u> | <u>\$ 781</u> | <u>\$ —</u> | <u>\$ (2,163)</u> |
| NON-GAAP NET INCOME (LOSS) | <u>\$ (614)</u> | <u>\$ 781</u> | <u>\$ —</u> | <u>\$ 167</u> |
| EBITDA | <u>\$ 3,872</u> | <u>\$ 2,014</u> | <u>\$ —</u> | <u>\$ 5,886</u> |
| ADJUSTED EBITDA | <u>\$ 6,202</u> | <u>\$ 2,014</u> | <u>\$ —</u> | <u>\$ 8,216</u> |

A reconciliation of NET INCOME (LOSS) to EBITDA and ADJUSTED EBITDA follows:

| | | | | |
|--------------------------------|-----------------|-----------------|-------------|-----------------|
| NET INCOME (LOSS) | \$ (2,944) | \$ 781 | \$ — | (2,163) |
| Income tax expense (benefit) | (92) | 549 | — | 457 |
| Interest expense (income), net | 140 | 618 | — | 758 |
| Depreciation and amortization | 6,768 | 66 | — | 6,834 |
| EBITDA | <u>\$ 3,872</u> | <u>\$ 2,014</u> | <u>\$ —</u> | <u>\$ 5,886</u> |
| Stock-based compensation | 1,014 | — | — | 1,014 |
| Lease termination costs | 450 | — | — | 450 |
| Move related expenses | 866 | — | — | 866 |
| ADJUSTED EBITDA | <u>\$ 6,202</u> | <u>\$ 2,014</u> | <u>\$ —</u> | <u>\$ 8,216</u> |

A reconciliation of NET INCOME (LOSS) to NON-GAAP NET INCOME (LOSS) follows:

| | | | | |
|-----------------------------------|-----------------|---------------|-------------|---------------|
| NET INCOME (LOSS) | \$ (2,944) | \$ 781 | \$ — | \$ (2,163) |
| Stock-based compensation | 1,014 | — | — | 1,014 |
| Lease termination costs | 450 | — | — | 450 |
| Move related expenses | 866 | — | — | 866 |
| NON-GAAP NET INCOME (LOSS) | <u>\$ (614)</u> | <u>\$ 781</u> | <u>\$ —</u> | <u>\$ 167</u> |

Note: Business and Retail Connect includes our Supplies Distributors and PFSweb Retail Connect operations, which operate similar financial models on behalf of our client relationships.

PFSweb, Inc. and Subsidiaries
Unaudited Condensed Consolidating Balance Sheets
as of September 30, 2013
(In Thousands)

| | PFSweb | Business & Retail Connect | Eliminations | Consolidated |
|--------------------------------------------------------------------|------------------|------------------------------|--------------------|-------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 14,845 | \$ 6,448 | \$ — | \$ 21,293 |
| Restricted cash | — | 466 | — | 466 |
| Accounts receivable, net | 26,840 | 11,600 | (725) | 37,715 |
| Inventories, net | — | 17,326 | — | 17,326 |
| Other receivables | — | 7,645 | — | 7,645 |
| Prepaid expenses and other current assets | 3,204 | 1,386 | — | 4,590 |
| Total current assets | 44,889 | 44,871 | (725) | 89,035 |
| PROPERTY AND EQUIPMENT, net | 26,406 | 261 | — | 26,667 |
| RECEIVABLE/INVESTMENT IN AFFILIATES | 13,992 | — | (13,992) | — |
| OTHER ASSETS | 2,787 | 93 | — | 2,880 |
| Total assets | <u>88,074</u> | <u>45,225</u> | <u>(14,717)</u> | <u>118,582</u> |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Current portion of long-term debt and capital lease obligations | \$ 4,094 | \$ 4,726 | \$ — | \$ 8,820 |
| Trade accounts payable | 6,142 | 20,736 | (725) | 26,153 |
| Deferred revenue | 9,161 | 5 | — | 9,166 |
| Accrued expenses | 15,306 | 5,993 | — | 21,299 |
| Total current liabilities | 34,703 | 31,460 | (725) | 65,438 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 3,473 | — | — | 3,473 |
| PAYABLE TO AFFILIATES | — | 23,045 | (23,045) | — |
| DEFERRED REVENUE | 6,177 | — | — | 6,177 |
| DEFERRED RENT | 5,142 | — | — | 5,142 |
| Total liabilities | <u>49,495</u> | <u>54,505</u> | <u>(23,770)</u> | <u>80,230</u> |
| COMMITMENTS AND CONTINGENCIES | | | | |
| SHAREHOLDERS' EQUITY: | | | | |
| Common stock | 16 | 19 | (19) | 16 |
| Capital contributions | — | 1,000 | (1,000) | — |
| Additional paid-in capital | 121,663 | 28,060 | (28,060) | 121,663 |
| Retained earnings (accumulated deficit) | (84,664) | (40,623) | 40,396 | (84,891) |
| Accumulated other comprehensive income | 1,689 | 2,264 | (2,264) | 1,689 |
| Treasury stock | (125) | — | — | (125) |
| Total shareholders' equity | 38,579 | (9,280) | 9,053 | 38,352 |
| Total liabilities and shareholders' equity | <u>\$ 88,074</u> | <u>\$ 45,225</u> | <u>\$ (14,717)</u> | <u>\$ 118,582</u> |

PFSweb, Inc. and Subsidiaries
Unaudited Condensed Consolidating Balance Sheets
as of December 31, 2012
(In Thousands)

| | PFSweb | Business & Retail Connect | Eliminations | Consolidated |
|--------------------------------------------------------------------|------------------|------------------------------|--------------------|-------------------|
| ASSETS | | | | |
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | \$ 13,079 | \$ 6,547 | \$ — | \$ 19,626 |
| Restricted cash | — | 283 | — | 283 |
| Accounts receivable, net | 34,831 | 11,574 | (721) | 45,684 |
| Inventories, net | — | 24,654 | — | 24,654 |
| Other receivables | — | 7,675 | — | 7,675 |
| Prepaid expenses and other current assets | 2,817 | 1,529 | — | 4,346 |
| Total current assets | 50,727 | 52,262 | (721) | 102,268 |
| PROPERTY AND EQUIPMENT, net | 27,651 | 266 | — | 27,917 |
| RECEIVABLE/INVESTMENT IN AFFILIATES | 13,396 | — | (13,396) | — |
| OTHER ASSETS | 3,166 | 120 | — | 3,286 |
| Total assets | 94,940 | 52,648 | (14,117) | 133,471 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES: | | | | |
| Current portion of long-term debt and capital lease obligations | \$ 13,072 | \$ 3,588 | \$ — | \$ 16,660 |
| Trade accounts payable | 12,109 | 29,105 | (721) | 40,493 |
| Deferred revenue | 6,573 | 75 | — | 6,648 |
| Accrued expenses | 16,743 | 6,354 | — | 23,097 |
| Total current liabilities | 48,497 | 39,122 | (721) | 86,898 |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 5,400 | — | — | 5,400 |
| PAYABLE TO AFFILIATES | — | 22,795 | (22,795) | — |
| DEFERRED REVENUE | 7,562 | — | — | 7,562 |
| DEFERRED RENT | 5,482 | 78 | — | 5,560 |
| Total liabilities | 66,941 | 61,995 | (23,516) | 105,420 |
| COMMITMENTS AND CONTINGENCIES | | | | |
| SHAREHOLDERS' EQUITY: | | | | |
| Common stock | 13 | 19 | (19) | 13 |
| Capital contributions | — | 1,000 | (1,000) | — |
| Additional paid-in capital | 106,018 | 28,059 | (28,059) | 106,018 |
| Retained earnings (accumulated deficit) | (79,461) | (40,606) | 40,658 | (79,409) |
| Accumulated other comprehensive income | 1,554 | 2,181 | (2,181) | 1,554 |
| Treasury stock | (125) | — | — | (125) |
| Total shareholders' equity | 27,999 | (9,347) | 9,399 | 28,051 |
| Total liabilities and shareholders' equity | \$ 94,940 | \$ 52,648 | \$ (14,117) | \$ 133,471 |

###