
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2020

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 000-28275

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2837058
(I.R.S. Employer
Identification Number)

505 Millennium Drive, Allen, Texas
(Address of principal executive offices)

75013
(Zip Code)

Registrant's telephone number, including area code: (972) 881-2900

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	PFSW	NASDAQ Capital Market

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

Indicate by checkmark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 4, 2020, there were 20,248,171 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	(Unaudited) September 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,397	\$ 12,434
Restricted cash	214	214
Accounts receivable, net of allowance for doubtful accounts of \$1,437 and \$1,071 at September 30, 2020 and December 31, 2019, respectively	56,156	72,262
Inventories, net of reserves of \$128 and \$291 at September 30, 2020 and December 31, 2019, respectively	5,086	3,281
Other receivables	3,199	3,324
Prepaid expenses and other current assets	7,213	6,954
Total current assets	82,265	98,469
PROPERTY AND EQUIPMENT:		
Cost	104,836	99,750
Less: accumulated depreciation	(85,290)	(81,314)
	19,546	18,436
OPERATING LEASE RIGHT-OF-USE ASSETS	36,529	36,403
IDENTIFIABLE INTANGIBLES, net	772	1,135
GOODWILL	45,192	45,393
OTHER ASSETS	3,919	3,772
Total assets	\$ 188,223	\$ 203,608
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 22,907	\$ 44,640
Accrued expenses	23,431	21,625
Current portion of operating lease liabilities	9,491	8,904
Current portion of long-term debt and finance lease obligations	3,155	2,971
Deferred revenues	3,031	6,058
Total current liabilities	62,015	84,198
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current portion	36,334	34,829
DEFERRED REVENUES, less current portion	1,528	1,398
OPERATING LEASE LIABILITIES	31,777	33,295
OTHER LIABILITIES	5,828	3,046
Total liabilities	137,482	156,766
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.001 par value; 35,000,000 shares authorized; 20,281,638 and 19,465,877 issued at September 30, 2020 and December 31, 2019, respectively; and 20,248,171 and 19,432,410 outstanding at September 30, 2020 and December 31, 2019, respectively	20	19
Additional paid-in capital	166,204	158,192
Accumulated deficit	(113,980)	(109,943)
Accumulated other comprehensive loss	(1,378)	(1,301)
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	50,741	46,842
Total liabilities and shareholders' equity	\$ 188,223	\$ 203,608

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE LOSS
(In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
REVENUES:				
Service fee revenue	\$ 60,194	\$ 49,602	\$ 176,488	\$ 151,371
Product revenue, net	4,229	6,579	17,677	20,216
Pass-through revenue	12,661	11,810	42,053	37,063
Total revenues	<u>77,084</u>	<u>67,991</u>	<u>236,218</u>	<u>208,650</u>
COSTS OF REVENUES:				
Cost of service fee revenue	40,877	32,296	116,358	99,062
Cost of product revenue	4,019	6,250	16,732	19,117
Cost of pass-through revenue	12,661	11,810	42,053	37,063
Total costs of revenues	<u>57,557</u>	<u>50,356</u>	<u>175,143</u>	<u>155,242</u>
Gross profit	19,527	17,635	61,075	53,408
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Loss from operations	(1,862)	(1,251)	(1,226)	(1,921)
INTEREST EXPENSE, net				
Loss before income taxes	365	458	1,154	1,418
INCOME TAX EXPENSE (BENEFIT), net				
	(2,227)	(1,709)	(2,380)	(3,339)
INCOME TAX EXPENSE (BENEFIT), net				
	592	(71)	1,657	438
NET LOSS	<u>\$ (2,819)</u>	<u>\$ (1,638)</u>	<u>\$ (4,037)</u>	<u>\$ (3,777)</u>
NET LOSS PER SHARE:				
Basic	\$ (0.14)	\$ (0.08)	\$ (0.20)	\$ (0.19)
Diluted	<u>\$ (0.14)</u>	<u>\$ (0.08)</u>	<u>\$ (0.20)</u>	<u>\$ (0.19)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	<u>20,211</u>	<u>19,432</u>	<u>19,899</u>	<u>19,454</u>
Diluted	<u>20,211</u>	<u>19,432</u>	<u>19,899</u>	<u>19,454</u>
COMPREHENSIVE LOSS:				
Net loss	\$ (2,819)	\$ (1,638)	\$ (4,037)	\$ (3,777)
Foreign currency translation adjustment	944	(458)	(77)	(332)
TOTAL COMPREHENSIVE LOSS	<u>\$ (1,875)</u>	<u>\$ (2,096)</u>	<u>\$ (4,114)</u>	<u>\$ (4,109)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands, Except Share Data)

Three Months Ended September 30, 2020

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, June 30, 2020	19,976,731	\$ 19	\$ 163,139	\$ (111,161)	\$ (2,322)	33,467	\$ (125)	\$ 49,550
Net loss	—	—	—	(2,819)	—	—	—	(2,819)
Stock-based compensation	—	—	3,235	—	—	—	—	3,235
Exercise of stock options	41,583	—	226	—	—	—	—	226
Issuance of shares under stock-based compensation awards	263,324	1	—	—	—	—	—	1
Tax withholding on shares under stock-based compensation awards	—	—	(396)	—	—	—	—	(396)
Foreign currency translation	—	—	—	—	944	—	—	944
Balance, September 30, 2020	20,281,638	\$ 20	\$ 166,204	\$ (113,980)	\$ (1,378)	33,467	\$ (125)	\$ 50,741

Nine Months Ended September 30, 2020

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2019	19,465,877	\$ 19	\$ 158,192	\$ (109,943)	\$ (1,301)	33,467	\$ (125)	\$ 46,842
Net loss	—	—	—	(4,037)	—	—	—	(4,037)
Stock-based compensation	—	—	8,934	—	—	—	—	8,934
Exercise of stock options	76,083	—	352	—	—	—	—	352
Issuance of shares under stock-based compensation awards	739,678	1	—	—	—	—	—	1
Tax withholding on shares under stock-based compensation awards	—	—	(1,274)	—	—	—	—	(1,274)
Foreign currency translation	—	—	—	—	(77)	—	—	(77)
Balance, September 30, 2020	20,281,638	\$ 20	\$ 166,204	\$ (113,980)	\$ (1,378)	33,467	\$ (125)	\$ 50,741

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (cont.)
(In Thousands, Except Share Data)

Three Months Ended September 30, 2019

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, June 30, 2019	19,465,877	\$ 19	\$ 156,494	\$ (109,912)	\$ (867)	33,467	\$ (125)	\$ 45,609
Net loss	—	—	—	(1,638)	—	—	—	(1,638)
Stock-based compensation	—	—	852	—	—	—	—	852
Foreign currency translation adjustment, net of taxes	—	—	—	—	(458)	—	—	(458)
Balance, September 30, 2019	19,465,877	\$ 19	\$ 157,346	\$ (111,550)	\$ (1,325)	33,467	\$ (125)	\$ 44,365

Nine Months Ended September 30, 2019

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2018	19,294,296	\$ 19	\$ 155,455	\$ (107,773)	\$ (993)	33,467	\$ (125)	\$ 46,583
Net loss	—	—	—	(3,777)	—	—	—	(3,777)
Stock-based compensation	—	—	2,181	—	—	—	—	2,181
Exercise of stock options	9,500	—	14	—	—	—	—	14
Issuance of shares under stock-based compensation awards	162,081	—	—	—	—	—	—	—
Tax withholding on shares under stock- based compensation awards	—	—	(304)	—	—	—	—	(304)
Foreign currency translation adjustment, net of taxes	—	—	—	—	(332)	—	—	(332)
Balance, September 30, 2019	19,465,877	\$ 19	\$ 157,346	\$ (111,550)	\$ (1,325)	33,467	\$ (125)	\$ 44,365

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,037)	\$ (3,777)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,278	7,942
Deferred income taxes	527	258
Stock-based compensation expense	8,934	2,181
Other	494	1,200
Changes in operating assets and liabilities:		
Accounts receivable	15,901	20,194
Inventories	(1,790)	2,030
Prepaid expenses, other receivables and other assets	(194)	2,463
Operating leases	(1,033)	53
Trade accounts payable, deferred revenues, accrued expenses and other liabilities	(23,577)	(20,502)
Net cash provided by operating activities	<u>1,503</u>	<u>12,042</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,755)	(3,164)
Proceeds from sale of property and equipment	145	—
Net cash used in investing activities	<u>(2,610)</u>	<u>(3,164)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	352	14
Taxes paid on behalf of employees for withheld shares	(1,274)	(304)
Payments on finance lease obligations	(968)	(1,330)
Payments on revolving loan	(88,407)	(107,703)
Borrowings on revolving loan	90,407	101,294
Payments on other debt	(1,414)	(3,522)
Borrowings on other debt	148	1,105
Net cash used in financing activities	<u>(1,156)</u>	<u>(10,446)</u>
EFFECT OF EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH	226	(340)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(2,037)</u>	<u>(1,908)</u>
Cash and cash equivalents, beginning of period	12,434	15,419
Restricted cash, beginning of period	214	207
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	<u>12,648</u>	<u>15,626</u>
Cash and cash equivalents, end of period	10,397	13,511
Restricted cash, end of period	214	207
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	<u>\$ 10,611</u>	<u>\$ 13,718</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 1,079	\$ 726
Cash paid for interest	\$ 1,078	\$ 1,451
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and finance leases	\$ 4,454	\$ 2,357

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PFSweb, Inc. and its subsidiaries have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and include all normal and recurring adjustments necessary to present fairly the unaudited condensed consolidated balance sheets, statements of operations and comprehensive loss, statements of shareholders' equity, and statements of cash flows for the periods indicated. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") have been condensed or omitted pursuant to the rules and regulations of the SEC. This report should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2019. We refer to PFSweb, Inc. and its subsidiaries collectively as "PFSweb," the "Company," "us," "we" and "our" in these unaudited condensed consolidated financial statements.

Results of our operations for interim periods may not be indicative of results for the full fiscal year. We reclassify certain prior year amounts, as applicable, to conform to the current year presentation.

Recent Developments

We continue to monitor the impact of the 2019 novel coronavirus, or COVID-19, on all aspects of our business. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020 and the President of the United States declared the COVID-19 outbreak a national emergency. While the COVID-19 pandemic has not had a material adverse impact on our results of operations to date, the future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. Beginning in late March 2020 and continuing through the third quarter of 2020, we experienced an increase in demand from certain clients for our services in our PFS Operations segment, as more consumers around the world practiced social distancing, complied with stay-at-home restrictions and many retail stores were closed toward the end of the March 2020 quarter and into the June 2020 quarter. This generated increased volume of online ordering. This trend has continued into the third quarter of 2020 but at a reduced rate from the March through June 2020 period. However, going forward there could be significant volatility in customer demand and buying habits as the pandemic continues and the resulting adverse economic impacts continue or deepen. We have begun experiencing labor rate increases in certain of our markets for fulfillment activities. We believe this will continue and that this could impact our overall fulfillment related costs and staffing.

We have taken a number of precautionary measures designed to help minimize the risk of the spread of the virus to our employees and adjusted our operations wherever necessary to help ensure a safe environment for our staff across business functions. Beginning in April 2020, we began to receive requests from a limited number of our clients to assist them with extended payment terms and/or pricing adjustments for a short time period. We have also experienced delays in certain limited projects and requests from certain clients to reduce current staffing on some of our projects. Prolonged delays or cancellations could have a material adverse impact to our overall business and financial results. As a result of the impact of COVID-19, many businesses have or will be experiencing short-term or long-term liquidity issues. It is possible that the COVID-19 pandemic, the restrictive measures taken by national and local governments to contain the virus and the resulting economic impact may cause disruptions and impact our business as we continue to move through the fiscal year which may materially and adversely affect the Company's results of operations, cash flows and financial position as well as that of our customers.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted. The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States' economy and fund a nationwide effort to curtail the effect of COVID-19. The Company has made use of the allowance granted under section 2302 of the CARES Act, which permits employers to forgo timely payment of the employer portions of Social Security and RRTA taxes that would otherwise be due from March 27 through December 31, 2020, without penalty or interest charges. Similarly, the UK and Belgium governments have granted businesses the option to defer the payment of certain value-added tax ("VAT") amounts. The Company has elected this option and we continue to examine the impact that the CARES Act and similar international statutes may have on our business.

2. Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The recognition and allocation of certain revenues and selling, general and administrative expenses in these unaudited condensed consolidated financial statements also require management estimates and assumptions.

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the unaudited condensed consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's unaudited condensed consolidated financial statements are fairly stated in accordance with US GAAP and provide a fair presentation of the Company's financial position and results of operations.

Furthermore, we considered the impact of the COVID-19 pandemic on the use of estimates and assumptions used for financial reporting and determined that there was no adverse material impact to our results of operations for the three and nine months ended September 30, 2020; however, the extent and duration of future impacts of the COVID-19 pandemic and any resulting economic impact are largely unknown and difficult to predict due to these unknown factors which may have a material impact on our financial position and results of operations in the future.

For a complete set of our significant accounting policies, refer to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019. During the three and nine-month periods ended September 30, 2020, there were no significant changes to our significant accounting policies.

Impact of Recently Issued Accounting Standards

Pronouncements Recently Adopted

In January 2017, the FASB issued ASU No. 2017-04, "*Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*" ("ASU 2017-04"), which removes Step 2 of the goodwill impairment test. A goodwill impairment will now be determined by the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2022, with early adoption permitted. The Company elected to adopt this new guidance early, beginning on January 1, 2020. The adoption of ASU 2017-04 did not have a material impact on our condensed consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 "*Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use Software and Cloud Computing Arrangements*" ("ASU 2018-15"), which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC Subtopic 350-40, in order to determine which costs to capitalize and recognize as an asset. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. We have adopted ASU 2018-15 on January 1, 2020 on a prospective basis. The adoption of ASU 2018-15 did not have a material impact on our condensed consolidated financial statements.

Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," ("ASU 2016-13") which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019 for all public entities, excluding smaller reporting companies, and after December 15, 2022 for smaller reporting companies. It requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. We will adopt ASU 2016-13 on January 1, 2023. We are currently in the early phase of evaluating the impact of the adoption of ASU 2016-13 on our condensed consolidated financial statements.

3. Revenue from Contracts with Clients and Customers

The following table presents our revenues, excluding sales and usage-based taxes, disaggregated by revenue source (in thousands):

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
Revenues:						
Service fee revenue	\$ 39,339	\$ 20,855	\$ 60,194	\$ 114,184	\$ 62,304	\$ 176,488
Product revenue, net	4,229	—	4,229	17,677	—	17,677
Pass-through revenue	11,836	825	12,661	39,708	2,345	42,053
Total revenues	<u>\$ 55,404</u>	<u>\$ 21,680</u>	<u>\$ 77,084</u>	<u>\$ 171,569</u>	<u>\$ 64,649</u>	<u>\$ 236,218</u>

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
Revenues:						
Service fee revenue	\$ 31,176	\$ 18,426	\$ 49,602	\$ 95,930	\$ 55,441	\$ 151,371
Product revenue, net	6,579	—	6,579	20,216	—	20,216
Pass-through revenue	10,760	1,050	11,810	35,049	2,014	37,063
Total revenues	<u>\$ 48,515</u>	<u>\$ 19,476</u>	<u>\$ 67,991</u>	<u>\$ 151,195</u>	<u>\$ 57,455</u>	<u>\$ 208,650</u>

The following table presents our revenues, excluding sales and usage-based taxes, disaggregated by timing of revenue recognition (in thousands):

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
Revenues:						
Over time	\$ 51,175	\$ 21,680	\$ 72,855	\$ 153,892	\$ 64,649	\$ 218,541
Point-in-time	4,229	—	4,229	17,677	—	17,677
Total revenues	<u>\$ 55,404</u>	<u>\$ 21,680</u>	<u>\$ 77,084</u>	<u>\$ 171,569</u>	<u>\$ 64,649</u>	<u>\$ 236,218</u>

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
Revenues:						
Over time	\$ 41,936	\$ 19,476	\$ 61,412	\$ 130,979	\$ 56,477	\$ 187,456
Point-in-time	6,579	—	6,579	20,216	978	21,194
Total revenues	<u>\$ 48,515</u>	<u>\$ 19,476</u>	<u>\$ 67,991</u>	<u>\$ 151,195</u>	<u>\$ 57,455</u>	<u>\$ 208,650</u>

The following table presents our revenues, excluding sales and usage-based taxes, disaggregated by region (in thousands):

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
	Revenues by region:					
North America	\$ 43,440	\$ 18,557	\$ 61,997	\$ 135,552	\$ 56,286	\$ 191,838
Europe	11,964	3,123	15,087	36,017	8,363	44,380
Total revenues	\$ 55,404	\$ 21,680	\$ 77,084	\$ 171,569	\$ 64,649	\$ 236,218

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
	Revenues by region:					
North America	\$ 41,052	\$ 17,260	\$ 58,312	\$ 125,950	\$ 50,803	\$ 176,753
Europe	7,463	2,216	9,679	25,245	6,652	31,897
Total revenues	\$ 48,515	\$ 19,476	\$ 67,991	\$ 151,195	\$ 57,455	\$ 208,650

Contract Assets and Contract Liabilities

Changes in costs to fulfill contract assets during the period decreased \$1.7 million from December 31, 2019 to September 30, 2020, primarily due to a decrease of approximately \$3.6 million for amortization and recognition of costs, offset by approximately \$1.9 million from new projects in the nine months ended September 30, 2020. Costs to fulfill contract assets relate to deferred costs, which are included within other current assets and/or other assets, and software development costs, which are included within property and equipment, in our condensed consolidated balance sheets.

Changes in contract liabilities during the period decreased \$3.8 million from December 31, 2019 to September 30, 2020, primarily due to a decrease of approximately \$10.8 million for amortization and recognition of revenue, offset by approximately \$7.0 million from new projects in the nine months ended September 30, 2020. Contract losses recognized for the nine months ended September 30, 2020 were not material. Accrued contract liabilities below are included within accrued expenses in our condensed consolidated balance sheets.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, and customer advances and deposits (contract liabilities) on the condensed consolidated balance sheets. Changes in the contract asset and liability balances during the nine months ended September 30, 2020 were not materially impacted by any other factors.

Contract balances consist of the following (in thousands):

	September 30, 2020	December 31, 2019
Contract Assets		
Trade accounts receivable, net	\$ 55,815	\$ 71,183
Unbilled accounts receivable	341	1,079
Costs to fulfill	3,159	4,875
Total contract assets	\$ 59,315	\$ 77,137
Contract Liabilities		
Accrued contract liabilities	\$ 934	\$ 1,806
Deferred revenue	4,559	7,456
Total contract liabilities	\$ 5,493	\$ 9,262

Remaining performance obligations represent the transaction price of firm orders for which work has not yet been performed. This amount does not include 1) contracts that are less than one year in duration, 2) contracts for which we recognize revenue based on the right to invoice for services performed, or 3) variable consideration allocated entirely to a wholly unsatisfied performance obligation. Much of our revenue qualifies for one of these exemptions. As of September 30, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations for contracts with an original expected duration of one year or more was \$9.5 million. We expect to recognize revenue on approximately 60% of the remaining performance obligations in 2020, 33% in 2021, and the remaining recognized thereafter.

4. Inventory Financing

Supplies Distributors, a wholly-owned subsidiary, has a short-term credit facility with IBM Credit LLC and its assignees (“IBM Credit Facility”) to finance its purchase and distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to \$7.5 million, as per an amended agreement. The agreement has no stated maturity date and provides either party the ability to exit the facility following a 90-day notice.

Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, we have classified the outstanding amounts under this facility, which were \$3.1 million and \$3.0 million as of September 30, 2020 and December 31, 2019, respectively, as trade accounts payable in the condensed consolidated balance sheets. As of September 30, 2020, Supplies Distributors had \$2.1 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. The credit facility also contains financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$1.0 million, as per an amended agreement. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5%, which resulted in a weighted average interest rate of 3.75% and 5.25% as of September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020, the Company was in compliance with all financial covenants.

5. Debt and Finance Lease Obligations

Outstanding debt and finance lease obligations consist of the following (in thousands):

	September 30, 2020	December 31, 2019
U.S. Credit Agreement		
Revolver	\$ 32,200	\$ 30,200
Equipment loan	6,066	5,426
Debt issuance costs	(244)	(303)
Finance Leases	1,305	2,177
Other	162	300
Total	<u>39,489</u>	<u>37,800</u>
Less current portion of long-term debt	3,155	2,971
Long-term debt, less current portion	<u>\$ 36,334</u>	<u>\$ 34,829</u>

U.S. Credit Agreement

On November 1, 2018, we entered into Amendment No. 1 to our Credit Agreement with Regions Bank (the “Amended Facility”). The Amended Facility provided for an increase in availability of our revolving loans to \$60.0 million, with the ability for a further increase of \$20.0 million to a total of \$80.0 million, and the elimination of the term loan. Amounts outstanding under the term loan were reconstituted as revolving loans. The Amended Facility also extended the maturity date to November 1, 2023 and provided for, subject to approval, up to an additional \$10.0 million in equipment financing.

As of September 30, 2020, we had \$26.3 million of available credit under the revolving loan facility. As of September 30, 2020 and December 31, 2019, the weighted average interest rate on the revolving loan facility was 2.46% and 3.96%, respectively.

As of September 30, 2020, we had approval for \$6.0 million of available credit in equipment financing.

As of September 30, 2020, we were in compliance with all debt covenants.

6. Earnings (Loss) Per Share

Basic net loss per common share was computed by dividing net loss by the weighted-average number of common shares outstanding for the reporting period. In periods when we recognize a net loss, we exclude the impact of outstanding common stock equivalents from the diluted loss per share calculation as their inclusion would have an antidilutive effect. As of September 30, 2020 and September 30, 2019, we had outstanding common stock equivalents of approximately 3.7 million and 2.5 million, respectively, that have been excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive.

7. Segment Information

Our segments are comprised of strategic businesses that are defined by the service offerings they provide and consist of PFS Operations (which provides client services in relation to the customer physical experience, such as order management (OMS), order fulfillment, customer care and financial services) and LiveArea Professional Services (which provides client services in relation to the digital experience of shopping online, such as strategic commerce consulting, strategy, design and digital marketing services and technology services). Each segment is led by a separate Business Unit Executive who reports directly to our Chief Operating Decision Maker.

The following table presents information concerning operations by segment (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
PFS Operations	\$ 55,404	\$ 48,515	\$ 171,569	\$ 151,195
LiveArea Professional Services	21,680	19,476	64,649	57,455
Total revenues	<u>\$ 77,084</u>	<u>\$ 67,991</u>	<u>\$ 236,218</u>	<u>\$ 208,650</u>
Business unit direct contribution:				
PFS Operations	\$ 2,538	\$ 1,702	\$ 10,030	\$ 6,357
LiveArea Professional Services	2,541	2,594	6,172	6,768
Total business unit direct contribution	5,079	4,296	16,202	13,125
Unallocated corporate expenses	(6,941)	(5,547)	(17,428)	(15,046)
Loss from operations	<u>\$ (1,862)</u>	<u>\$ (1,251)</u>	<u>\$ (1,226)</u>	<u>\$ (1,921)</u>
Depreciation and amortization:				
PFS Operations	\$ 1,616	\$ 2,120	\$ 4,811	\$ 6,153
LiveArea Professional Services	204	276	633	891
Unallocated corporate expenses	209	278	834	898
Total depreciation and amortization	<u>\$ 2,029</u>	<u>\$ 2,674</u>	<u>\$ 6,278</u>	<u>\$ 7,942</u>

8. Commitments and Contingencies

The Company is subject to claims in the ordinary course of business, including claims of alleged infringement by the Company or its subsidiaries of the patents, trademarks and other intellectual property rights of third parties. The Company is generally required to indemnify its service fee clients against any third party claims asserted against such clients alleging infringement by the Company of the patents, trademarks and other intellectual property rights of third parties. In the opinion of management, any liabilities resulting from these claims, would not have a material adverse effect on the Company's financial position or results of operations.

9. Related Party Transaction

In June 2020 the Company entered into an agreement with Hardinge, Inc. ("Hardinge") in which our LiveArea segment is to provide various services related to eCommerce. Benjamin Rosenzweig ("Mr. Rosenzweig"), a member of our Board of Directors, is a partner at Privet Fund Management LLC ("Privet"). Privet is the general partner and investment manager of funds that own Hardinge and Mr. Rosenzweig also serves on the Board of Directors of Hardinge.

We recognized \$0.3 million in revenue in the three and nine months ended September 30, 2020. As of September 30, 2020, there was an accounts receivable balance of \$0.2 million from Hardinge.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Form 10-Q.

Forward-Looking Information

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of 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, including statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as "may," "will," "would," "should," "could," "expect," "anticipate," "believe," "estimate," "intend," "plan," "potential," "project," "predict," "future," "target," "seek," "continue" and other similar expressions. These forward-looking statements involve risks and uncertainties, and may include assumptions as to how we may perform in the future, including the impact of the COVID-19 pandemic on our business, results of operations and global economic conditions. Although we believe the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee these expectations will actually be achieved. In addition, some forward-looking statements are based upon assumptions about future events that may not prove to be accurate. Therefore, our actual results may differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed in "Part I, Item 1A: Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as supplemented by our Form 10-K/A filed on April 29, 2020 (the "Annual Report"), as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in the Annual Report and our other filings with the Securities and Exchange Commission, or the SEC, including any quarterly reports on Form 10-Q. We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances. There may be additional risks we do not currently view as material or that are not presently known or that are beyond our ability to control or predict. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Key Events and Trends

COVID-19 Pandemic

We continue to closely monitor the impact of the 2019 novel coronavirus, or COVID-19, pandemic on all aspects of our business. Our focus has been, and continues to be, on protecting our employees, while continuing to serve our clients. While the COVID-19 pandemic has not had a material adverse impact on our results of operations to date, the future impacts of the pandemic and any resulting economic impact are largely unknown and rapidly evolving.

Beginning in late March 2020 and continuing through the third quarter of 2020, we experienced an increase in demand from certain clients for our services in our PFS Operations segment, as more consumers around the world practiced social distancing, complied with stay-at-home restrictions and many retail stores were closed during the March 2020 to June 2020 period. This generated increased volume of online ordering. This trend has continued into the third quarter of 2020 but at a reduced rate from the March 2020 through June 2020 period. However, going forward there could be significant volatility in customer demand and buying habits as the pandemic continues and the resulting adverse economic impacts continue or deepen. We have begun experiencing labor rate increases in certain of our markets for fulfillment activities. We believe this will continue and that this could impact our overall fulfillment related costs and staffing.

Both our LiveArea and PFS Operations business segments are engaged in the support of our clients' direct to consumer online business activity. Due to restrictions on traditional brick and mortar activities introduced by government mandates in 2020, many businesses, including many of our clients, have migrated an incremental amount of their investments and business volumes to their online channel, including both website development and marketing activity as well as the physical movement of product. This is a trend which has continued through the third quarter of 2020. We believe this has resulted in, and is currently expected to continue to provide us with strong demand for our service offerings. As the restrictions on brick and mortar activities are lessened, this may lead to reduced demand for the services of LiveArea and PFS Operations as customers return to stores. Despite the unpredictability of volumes brought on by the COVID-19 pandemic, the contracts that had been secured during the pandemic with new clients and amended contracts with existing clients were entered into with the intention to support volumes post-COVID-19 that are the same or higher than those pre-COVID-19. As a result of the increased volumes that are currently occurring and those potentially expected, we have secured additional warehouse space and headcount to meet the current and expected future volumes for the PFS Operations business.

We are incurring additional costs related to the enhanced cleaning regimen implemented in our facilities and purchasing personal protective equipment ("PPE") which we are providing to our employees. As of September 30, 2020, we have incurred approximately \$1.1 million in costs related to the COVID-19 pandemic, excluding hourly wage rate related labor cost increases

and performance based incentives. Included in this \$1.1 million, are capital expenditures related to COVID-19 which amounted to approximately \$0.5 million. Beginning in April 2020, we began to receive requests from a limited number of our clients to assist them with extended payment terms and/or pricing adjustments for a short time period. For the nine months ended September 30, 2020, this has not resulted in a material impact to cash flows. We have also begun to see delays in certain limited projects and requests from certain clients to reduce current staffing on our time and materials projects. While we believe this will have a short-term impact on cash flow and revenues, we do not currently anticipate these identified modifications to date will have a material impact to our overall business and financial results. We will continue to monitor these for potential impacts to future cash flow.

Overall, while there is an increased level of uncertainty in our financial forecasts for the remainder of 2020 due to the macro-economic uncertainty related to the COVID-19 pandemic, we currently continue to target growth in service fee revenues for both of our business segments for the remainder of the year as compared to 2019. For our LiveArea business, we expect some short-term impact on revenue and profitability continuing into the fourth quarter of 2020, as a result of the client requested project deferrals and adjustments, but we expect to have continuing success in winning new or expanded client relationships that are expected to offset this impact. For our PFS business segment, we are expecting an overall stronger level of service fees from existing clients who have migrated more of their business to the online channel that we support. However, we expect some shortfalls versus our original projections in winning new client opportunities due to the COVID-19 pandemic related restrictions on our prospects' abilities to adjust their business operations in the near term and implement such business within 2020.

As a result of the impact of the COVID-19 pandemic, many businesses have or will be experiencing short-term or long-term liquidity issues. Based on our current expectations, we believe we have the appropriate financial structure in place to support our own business operations. However, we do expect increased potential risk from the viability of clients and their ability to make payments on time. We have and will continue to closely monitor our clients' financial results, payment patterns and business updates in an effort to minimize the potential impact of our credit risk.

While the COVID-19 pandemic has not yet had a material adverse impact on our operations to date, the extent and duration of future impacts of the pandemic and any resulting economic impact on our business are largely unknown and difficult to predict. We recommend that you review Item 1A. "Risk Factors" in the Annual Report on Form 10-K for fiscal year ended December 31, 2019, as supplemented by our Form 10-K/A filed on April 29, 2020 for a description of the risks related to the COVID-19 pandemic.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted and signed into law. The Company has made use of the allowance granted under section 2302 of the CARES Act, which permits employers to forgo timely payment of the employer portions of Social Security and RRTA taxes that would otherwise be due from March 27 through December 31, 2020, without penalty or interest charges. We have elected this option and it has resulted in deferred payments through September 30, 2020 totaling \$2.5 million, due in equal payments on December 31, 2021 and December 31, 2022. We expect to defer between \$3.5 million and \$4.0 million through December 31, 2020. Similarly, the UK and Belgium governments have granted businesses the option to defer the payment of certain value-added tax ("VAT") amounts. We have elected to take advantage of the options available to us but the effects have been immaterial. We continue to examine the impact that the CARES Act and similar international statutes may have on our business.

In March 2020, we established a COVID-19 task force, comprised of leaders from a cross function of each of our operational sites and business units. The objectives of the task force are to:

- Gather daily key information from each site regarding risks, opportunities and developments related to the pandemic's impact and Company's response to ensure unfiltered access to information for the Company's leadership.
- Identify and accumulate data required for decision making at the leadership level, including providing recommended courses of action.
- Coordinate communication plans for all of our geographic locations.
- Access, establish, monitor and adjust our business operations continuity plans for each geographic location.
- Ensure formal tracking of any known or suspected employee cases of COVID-19.

We have taken a number of precautionary measures designed to help minimize the risk of the spread of the virus to our employees, including suspending all non-essential travel worldwide for our employees, and adjusting our operations wherever necessary to help ensure a safe environment for our staff across business functions.

We have transitioned our professional staff and contact center agents to a work-from-home solution, with only a few exceptions. While all of our distribution facilities are considered essential businesses in the jurisdictions in which they are located and have continued to operate, we have established procedures to ensure the safety of our distribution facility staff, including:

- Employees are not required to come to work if they are not comfortable doing so.

- Employees that are experiencing or have been exposed to anyone exhibiting symptoms of COVID-19 have been told not to come to work and to seek medical attention and/or testing and stay home until they receive a negative test result, have self-quarantined for 14 days and/or receive clearance from a medical professional.
- Performing temperature checks at entry doors. Employees exhibiting any symptoms of COVID-19 or who have an elevated temperature are not allowed in the facility.
- Provide PPE for employees including gloves, face masks and in certain facilities, face shields. We have provided training for proper use of the equipment.
- Require distancing among employees inside of the working areas of the distribution facilities and require that all employees use the greatest social distancing available inside of the facilities with constant enforcement being maintained.
- Provide mobile cleaning stations for employee use at any time and access to hand sanitizer stations.
- Increased and enhanced cleaning regimen in all facilities. Facilities are cleaned on a daily basis, as well as a nightly cleaning that includes disinfectant fogging at some facilities.
- Facilitating virtual focus groups with employees to seek out ways to provide suggestions to the task force.

Overview

We are a global commerce services company. We manage the entire commerce customer experience for major branded manufacturers and retailers through two business segments, LiveArea Professional Services ("LiveArea") and PFS Operations. LiveArea provides a comprehensive set of services to support and improve B2B, B2C and B2B2C digital and physical shopping experiences or eCommerce. Service areas include eCommerce strategy and consulting, omni-channel experience design, digital marketing, data strategy and technology services including development and system integration. PFS Operations provides services to support and improve the physical experience, such as order management, order fulfillment, customer care and payment services. We offer our services on an a la carte basis or as a complete end-to-end solution.

Operating Results

The following table discloses certain financial information for the periods presented, expressed in terms of dollars, dollar change, percentage change and as a percentage of total revenues (in thousands, except percentages):

	Three Months Ended September 30,			% of Total Revenues		Nine Months Ended September 30,			% of Total Revenues	
	2020	2019	Change	2020	2019	2020	2019	Change	2020	2019
Revenues										
Service fee revenue	\$ 60,194	\$ 49,602	\$ 10,592	78.1 %	73.0 %	\$ 176,488	\$ 151,371	\$ 25,117	74.7 %	72.5 %
Product revenue, net	4,229	6,579	(2,350)	5.5 %	9.7 %	17,677	20,216	(2,539)	7.5 %	9.7 %
Pass-through revenue	12,661	11,810	851	16.4 %	17.4 %	42,053	37,063	4,990	17.8 %	17.8 %
Total revenues	77,084	67,991	9,093	100.0 %	100.0 %	236,218	208,650	27,568	100.0 %	100.0 %
Costs of Revenues										
Cost of service fee revenue	40,877	32,296	8,581	67.9 % (1)	65.1 %	116,358	99,062	17,296	65.9 % (1)	65.4 %
Cost of product revenue	4,019	6,250	(2,231)	95.0 % (2)	95.0 %	16,732	19,117	(2,385)	94.7 % (2)	94.6 %
Cost of pass-through revenue	12,661	11,810	851	100.0 % (3)	100.0 %	42,053	37,063	4,990	100.0 % (3)	100.0 %
Total costs of revenues	57,557	50,356	7,201	74.7 %	74.1 %	175,143	155,242	19,901	74.1 %	74.4 %
Service fee gross profit	19,317	17,306	2,011	32.1 % (1)	34.9 %	60,130	52,309	7,821	34.1 % (1)	34.6 %
Product revenue gross profit	210	329	(119)	5.0 % (2)	5.0 %	945	1,099	(154)	5.3 % (2)	5.4 %
Total gross profit	19,527	17,635	1,892	25.3 %	25.9 %	61,075	53,408	7,667	25.9 %	25.6 %
Selling, General and Administrative expenses	21,389	18,886	2,503	27.7 %	27.8 %	62,301	55,329	6,972	26.4 %	26.5 %
Loss from operations	(1,862)	(1,251)	(611)	(2.4)%	(1.8)%	(1,226)	(1,921)	695	(0.5)%	(0.9)%
Interest expense, net	365	458	(93)	0.5 %	0.7 %	1,154	1,418	(264)	0.5 %	0.7 %
Loss before income taxes	(2,227)	(1,709)	(518)	(2.9)%	(2.5)%	(2,380)	(3,339)	959	(1.0)%	(1.6)%
Income tax expense (benefit), net	592	(71)	663	0.8 %	(0.1)%	1,657	438	1,219	0.7 %	0.2 %
Net loss	\$ (2,819)	\$ (1,638)	\$ (1,181)	(3.7)%	(2.4)%	\$ (4,037)	\$ (3,777)	\$ (260)	(1.7)%	(1.8)%

- (1) Represents the percent of Service fee revenue.
- (2) Represents the percent of Product revenue, net.
- (3) Represents the percent of Pass-through revenue.

Segment Operating Data

PFS Operations (in thousands, except percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	Change %	2020	2019	Change	Change %
Revenues								
Service fee revenue	\$ 39,339	\$ 31,176	\$ 8,163	26.2 %	\$ 114,184	\$ 95,930	\$ 18,254	19.0 %
Product revenue, net	4,229	6,579	(2,350)	(35.7)%	17,677	20,216	(2,539)	(12.6)%
Pass-through revenue	11,836	10,760	1,076	10.0 %	39,708	35,049	4,659	13.3 %
Total revenues	55,404	48,515	6,889	14.2 %	171,569	151,195	20,374	13.5 %
Costs of Revenues								
Cost of service fee revenue	29,658	22,349	7,309	32.7 %	82,397	69,023	13,374	19.4 %
Cost of product revenue	4,019	6,250	(2,231)	(35.7)%	16,732	19,117	(2,385)	(12.5)%
Cost of pass-through revenue	11,836	10,760	1,076	10.0 %	39,708	35,049	4,659	13.3 %
Total costs of revenues	45,513	39,359	6,154	15.6 %	138,837	123,189	15,648	12.7 %
Gross Profit	9,891	9,156	735	8.0 %	32,732	28,006	4,726	16.9 %
Direct operating expenses	7,353	7,454	(101)	(1.4)%	22,702	21,649	1,053	4.9 %
Direct contribution	\$ 2,538	\$ 1,702	\$ 836	49.1 %	\$ 10,030	\$ 6,357	\$ 3,673	57.8 %

PFS Operations total revenues for the three and nine months ended September 30, 2020 increased by \$6.9 million and \$20.4 million, respectively, compared with the corresponding periods in 2019. Service fee revenue for the three and nine months ended September 30, 2020 increased \$8.2 million and \$18.3 million, respectively, compared to the prior year. The service fee revenue increase was primarily due to growth from new and existing clients, driven primarily from increased fulfillment activity related to increased on-line spending as a result of COVID-19, offset by client terminations and bankruptcies. For the three and nine months ended September 30, 2019, we had service fee revenues totaling approximately \$0.4 million and \$3.1 million, respectively, related to two clients that filed bankruptcy and subsequently liquidated their operations in 2019. Excluding the decrease from these clients, service fee revenues would have increased by \$8.6 million and \$21.4 million for the three and nine months ended September 30, 2020, respectively.

Product revenue, net, for the three and nine months ended September 30, 2020, decreased by \$2.4 million and \$2.5 million, respectively, compared with the corresponding periods in 2019. Product revenue declined as it is primarily dependent on one client, which restructured its operations and discontinued certain product lines. We expect to see continued reduced product revenue as the year continues, as a result of the restructuring of our client.

Pass-through revenue, primarily related to freight activity, increased by \$1.1 million and \$4.7 million for the three and nine months ended September 30, 2020 compared to the corresponding periods in 2019 primarily due to incremental activity with both new and existing clients partially offset by the impact of a client's transition of their freight management activities.

PFS Operations gross margin decreased by 1.0% to 17.9% for the three months ended September 30, 2020 as compared to 18.9% in the same period of the prior year. The decreased margin is due to a decrease of our service fee margin of 3.7% to 24.6% for the three months ended September 30, 2020 as compared to 28.3% in the same period of the prior year, primarily as a result of increased fulfillment labor costs. This was somewhat offset by the impact of revenue mix, as the service fee business activity, which generates a higher gross margin than the product revenue and pass-through revenue activity, represents a larger proportion of total revenues for the three months ended September 30, 2020 as compared to the prior year. PFS Operations gross margin increased by 0.6% to 19.1% for the nine months ended September 30, 2020 as compared to 18.5% in the same period of the prior year. The service fee margin decreased by 0.2% to 27.8% for the nine months ended September 30, 2020 as compared to 28.0% for the same period of the prior year, primarily as a result of increased labor costs in the third quarter of 2020, reduced by operating cost efficiencies gained in the first half of 2020. The decrease in the service fee margin is offset by the service fee business representing a larger proportion of total revenues for the nine months ended September 30, 2020, compared to the lower margin product revenue and pass-through revenue.

Direct operating expenses for the three months ended September 30, 2020 decreased by \$0.1 million compared to the corresponding period in 2019. For the nine months ended September 30, 2020, direct operating expenses increased by \$1.1 million compared to the corresponding period in 2019. The movements for the three months ended September 30, 2020 were impacted by personnel costs arising from stock-based compensation expense which increased by \$0.7 million and \$1.4 million for the three and nine months ended September 30, 2020 as compared to the prior year. The increased stock compensation expense for the three and nine months ended September 30, 2020 arose from the issuance of incremental awards after the approval of a new Stock and Incentive Plan by shareholders on June 30, 2020. Excluding the impact of stock-based compensation, direct operating expenses decreased by \$0.8 million and \$0.3 million for the three and nine months ended September 30, 2020, respectively. The decrease for the three and nine months ended September 30, 2020 was primarily due to reduced severance related costs and by the prior year amount including a higher provision for doubtful accounts due to a 2019 client bankruptcy. These were partially offset by increased personnel related costs (including variable compensation expense), facility costs, and sales and marketing related spend.

LiveArea Professional Services (in thousands, except percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	Change %	2020	2019	Change	Change %
Revenues								
Service fee revenue	\$ 20,855	\$ 18,426	\$ 2,429	13.2 %	\$ 62,304	\$ 55,441	\$ 6,863	12.4 %
Pass-through revenue	825	1,050	(225)	(21.4)%	2,345	2,014	331	16.4 %
Total revenues	21,680	19,476	2,204	11.3 %	64,649	57,455	7,194	12.5 %
Costs of revenues								
Cost of service fee revenue	11,219	9,947	1,272	12.8 %	33,961	30,039	3,922	13.1 %
Cost of pass-through revenue	825	1,050	(225)	(21.4)%	2,345	2,014	331	16.4 %
Total costs of revenues	12,044	10,997	1,047	9.5 %	36,306	32,053	4,253	13.3 %
Gross profit	9,636	8,479	1,157	13.6 %	28,343	25,402	2,941	11.6 %
Direct operating expenses	7,095	5,885	1,210	20.6 %	22,171	18,634	3,537	19.0 %
Direct contribution	\$ 2,541	\$ 2,594	\$ (53)	(2.0)%	\$ 6,172	\$ 6,768	\$ (596)	(8.8)%

LiveArea Professional Services revenues for the three and nine months ended September 30, 2020 increased by \$2.2 million and \$7.2 million, respectively, compared to the corresponding periods in 2019. The increase in revenues are primarily due to the higher level of new and existing client activity, as a result of increased success in booking new projects and engagements during late 2019 and continuing into 2020.

LiveArea Professional Services gross margin increased by 0.9% to 44.4% for the three months ended September 30, 2020 as compared to 43.5% in the same period of the prior year, and remained essentially flat in the nine months ended September 30, 2020 at 43.8% against 44.2% in the same period of the prior year. The increase in gross margin for the three months ended September 30, 2019 is primarily attributable to higher than expected costs incurred on certain client projects.

Direct operating expenses increased by \$1.2 million and \$3.5 million for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019. The increase was primarily attributable to increases in stock-based compensation of \$0.6 million and \$2.7 million for the three and nine months ended September 30, 2020, respectively. Excluding this expense, direct operating expenses increased by \$0.6 million and \$0.8 million for the three and nine months ended September 30, 2020, respectively. The increase arose primarily as a result of incremental sales and marketing personnel costs and increased variable compensation expense, partially offset by reduced travel related spend.

Corporate (in thousands, except percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Change	Change %	2020	2019	Change	Change %
Unallocated corporate expenses	\$ 6,941	\$ 5,547	\$ 1,394	25.1 %	\$ 17,428	\$ 15,046	\$ 2,382	15.8 %

Unallocated corporate expenses increased by \$1.4 million and \$2.4 million for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in 2019. The increases were in part attributable to increases in stock-based compensation of \$1.1 million and \$2.7 million, offset by a \$0.5 million and \$1.6 million reduction to vacation expense for the three and nine months ended September 30, respectively. The decrease to vacation expense was primarily related to a change in policy to allow for the introduction of a flexible vacation policy that is not restricted to time earned by the Company for our US full-time exempt employees in the second quarter of 2020. Excluding the impacts of these factors, unallocated corporate expenses increased by \$0.8 million and \$1.3 million for the three and nine months ended September 30, 2020, respectively, primarily as a result of increased personnel related costs.

Income Taxes

During the three months ended September 30, 2020, we recorded a tax expense of \$0.6 million comprised primarily of \$0.4 million related to the majority of our international operations, \$0.1 million related to state income taxes, and \$0.1 million associated with the tax amortization of goodwill in relation to our 2015 acquisition. A valuation allowance has been provided for the majority of our domestic net deferred tax assets, which are primarily related to our net operating loss carryforwards, and for certain foreign deferred tax assets.

During the nine months ended September 30, 2020, we recorded a tax expense of \$1.7 million comprised primarily of \$0.8 million related to the majority of our international operations, \$0.5 million related to state income taxes, and \$0.4 million associated with the tax amortization of goodwill in relation to our 2015 acquisition. A valuation allowance has been provided for the majority of our domestic net deferred tax assets, which are primarily related to our net operating loss carryforwards, and for certain foreign deferred tax assets.

For the three and nine months ended September 30, 2020 and 2019, we have utilized the discrete effective tax rate method, as allowed by Accounting Standards Codification ("ASC") 740-270-30-18, "Income Taxes—Interim Reporting," to calculate the interim income tax provision. The discrete method is applied when the application of the estimated annual effective tax rate is impractical because it is not possible to reliably estimate the annual effective tax rate. The discrete method treats the year to date period as if it was the annual period and determines the income tax expense or benefit on that basis. We believe that, at this time, the use of this discrete method is more appropriate than the annual effective tax rate method as (i) the estimated annual effective tax rate method is not reliable due to the high degree of uncertainty in estimating annual pretax earnings by jurisdiction and (ii) our ongoing assessment that the recoverability of our deferred tax assets is not likely in several jurisdictions.

The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years. Due to the company's historical NOLs, the NOL carryback provision of the CARES Act would not result in a benefit.

Liquidity and Capital Resources

We currently believe our cash position, financing available under our credit facilities and funds generated from operations will satisfy our known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries, if necessary, for at least the next twelve months. However, our assumptions and expectations may be impacted by the uncertain duration and extent of the adverse economic conditions caused by the COVID-19 pandemic.

Our cash position decreased in the nine months ended September 30, 2020 primarily from purchases of property and equipment and cash used in financing activities partially offset cash provided by operating activities.

Cash Flows from Operating Activities

During the nine months ended September 30, 2020, net cash provided by operations was \$1.5 million, compared to net cash provided by operations of \$12.0 million in the same period of the prior year. Both periods included benefits from cash income generated from operations before changes in operating assets and liabilities. Such benefits were then either increased or decreased, depending on period, by the net impact of changes in assets and liabilities, primarily related to the amount and timing of client revenue billings and collections as well as vendor purchasing and payment activity. In the nine months ended September 30, 2020, there was a reduced cash flow benefit from a seasonality driven reduction in accounts receivable. In addition, one of our clients transitioned away from our service offering of credit card collections from this client's customers which further increased our net cash used in operations. We expect the impact from the change in this client's service offering to have a reduced impact on cash flows from operating activities for the remainder of 2020.

We have deferred payment of the employer portions of Social Security and RRTA taxes that would otherwise be due from March 27 through December 31, 2020, by election of the option provided by the CARES Act. This has resulted in deferred payments through September 30, 2020 totaling \$2.5 million, due in equal payments on December 31, 2021 and December 31, 2022 and we expect to defer between \$3.5 million and \$4.0 million through December 31, 2020.

Cash Flows from Investing Activities

Cash used in investing activities included capital expenditures of \$2.8 million and \$3.2 million during the nine months ended September 30, 2020 and 2019, respectively, exclusive of property and equipment acquired under debt and finance lease financing, which consisted primarily of capitalized software costs and equipment purchases. Capital expenditures have historically consisted of additions to upgrade our management information systems, development of customized technology solutions to support and integrate with our service fee clients and general expansion and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures to support new facilities, contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in upgrades and additions to facilities and information technology solutions and services for the upcoming twelve months, including costs to implement new clients, will be approximately \$8.0 million to \$10.0 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements, debt, operating or finance leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event that we do not obtain the financing results necessary to support such investments.

Cash Flows from Financing Activities

During the nine months ended September 30, 2020, cash used in financing activities was \$1.2 million and during the nine months ended September 30, 2019, cash used in financing activities was \$10.4 million. The balances in both periods were primarily due to net borrowing and payment activity on our revolving loan and other debt.

Working Capital

During the nine months ended September 30, 2020, our working capital increased to \$20.3 million compared to \$14.3 million at December 31, 2019. This increase was primarily related to income generated from operations before working capital changes, plus net borrowings on our revolving debt facility, partially offset by capital expenditures.

To obtain any necessary additional financing in the future, in addition to our current cash position, we continue to evaluate our needs in light of various financing alternatives potentially available including the sale of equity, utilizing capital or operating leases, borrowing under our credit facilities, expanding our current credit facilities or entering into new debt agreements. No assurances can be given we will be successful in obtaining any additional financing or the terms thereof. We currently believe our cash position, financing available under our credit facilities and funds generated from operations will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries, if necessary, for at least the next twelve months.

Our term and revolving loan facilities described below contain both financial and non-financial covenants. To the extent we fail to comply with our debt covenants, including the financial covenant requirements, and we are not able to obtain a waiver, the lenders would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral. An acceleration of the repayment of our credit facility obligations may have a material adverse impact on our financial condition and results of operations. We can provide no assurance we will have the financial ability to repay all such obligations. As of September 30, 2020, we were in compliance with all debt covenants. Further, non-renewal of any of our credit facilities may have a material adverse impact on our business and financial condition.

Inventory Financing

To finance its distribution of Ricoh products in the U.S., Supplies Distributors has a short-term credit facility with IBM Credit LLC and its assignees ("IBM Credit") that provides financing for eligible inventory and certain receivables for up to \$7.5 million. We have provided a collateralized guarantee to secure the repayment of this credit facility. The IBM Credit facility does not have a stated maturity and both parties have the ability to exit the facility following a 90-day notice.

This credit facility contains various restrictions upon the ability of Supplies Distributors and its subsidiaries to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than \$1.0 million, not maintain restricted cash of more than \$5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries under these facilities if they are unable to do so. We have also provided a guarantee of substantially all of the obligations of Supplies Distributors and its subsidiaries to IBM and Ricoh.

Debt and Finance Lease Obligations

U.S. Credit Agreement. In August 2015, we entered into a credit agreement (“Credit Agreement”) with Regions Bank, as agent for itself and one or more future lenders (the “Lenders”). Under the Credit Agreement, and subject to the terms set forth therein, the Lenders provided us with a revolving loan facility for up to \$32.5 million and a term loan facility for up to \$30 million. Borrowings under the Credit Agreement accrued interest at a variable rate based on prime rate or Libor, plus an applicable margin.

On November 1, 2018, we entered into Amendment No. 1 to our credit agreement with Regions Bank (the “Amended Facility”). The Amended Facility provided for an increase in availability of our revolving loans to \$60.0 million, with the ability for a further increase of \$20.0 million to a total of \$80.0 million, and the elimination of the term loan. Amounts outstanding under the term loan were reconstituted as revolving loans. The Amended Facility also extended the maturity date to November 1, 2023.

As of September 30, 2020 and December 31, 2019, the weighted average interest rate on the revolving loan facility was 2.46% and 3.96%, respectively. The Amended Facility is secured by a lien on substantially all of the operating assets of the US entities and a pledge of 65% of the shares of certain of our foreign subsidiaries. The Amended Facility contains cross default provisions, various restrictions upon the Company’s ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to subsidiaries, affiliates and related parties, make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants, as defined, of a minimum consolidated fixed charge ratio and a maximum consolidated leverage ratio.

Master Lease Agreements. We have various agreements that provide for leasing or financing transactions of equipment and other assets and will continue to enter into such arrangements as needed to finance the purchasing or leasing of certain equipment or other assets. Borrowings under these agreements, which generally have terms of three to five years, are generally secured by the related equipment, and in certain cases, by a Company parent guarantee.

Other than our finance and operating lease commitments, we do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures*Disclosure Controls and Procedures*

We maintain a comprehensive set of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”). As of September 30, 2020, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2020, there was no change in internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Most of our employees, excluding our warehouse workers, are working remotely due to the COVID-19 pandemic. We have not experienced any material adverse impact to our internal controls over financial reporting due to our change in operations. We are continually monitoring and assessing whether these changes in operations as a response to the COVID-19 pandemic will have any impact on the design and operating effectiveness of our internal controls.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as supplemented by our Form 10-K/A filed with the Securities and Exchange Commission on April 29, 2020.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1	<u>Amended and Restated Certificate of Incorporation of PFSweb, Inc.</u>
3.1.1	<u>Certificate of Amendment of Certificate of Incorporation of PFSweb, Inc.</u>
3.1.2	<u>Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.</u>
3.1.3	<u>Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.</u>
3.1.4	<u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.</u>
3.2	<u>Amended and Restated By-Laws.</u>
4.1	<u>Amendment No. 7 to Rights Agreement, dated as of June 27, 2018 between the Company and Computershare Inc., successor in interest to Computershare Shareowner Services LLC (formerly known as Mellon Investor Services LLC), as successor to ChaseMellon Shareholder Services, LLC., as rights agent.</u>
10.2**	<u>Logistics Warehouse Lease Agreement between Weerts Logistic Park III NV and Supplies Distributors SA</u>
10.3**	<u>Warehouse Lease Agreement between ProLogis Texas II (2) LLC and Priority Fulfillment Services, Inc.</u>
31.1**	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2**	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101**	The following unaudited financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations and Comprehensive Income, (iii) Condensed Consolidated Statements of Shareholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements.
104**	Cover Page Interactive Data file, formatted in Inline XBRL (included as Exhibit 101).

* Denotes management or compensatory agreements

** Filed herewith

SIGNATURES

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 thereunto duly authorized.

Date: November 6, 2020

PFSweb, Inc.

By: /s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer
Executive Vice President

Logistics Warehouse Lease Agreement

BETWEEN THE UNDERSIGNED:

1. The limited liability company incorporated under the laws of Belgium **Weerts Logistic Park III NV**, having its registered office at Varnstraat 2, B-3793 Voeren, registered with the Crossroads Bank for Enterprises under the number 0727.392.805,

hereby duly represented by Mr. Yves Weerts, CEO,

hereinafter referred to as "**the Landlord**",

AND

2. The limited liability company incorporated under the laws of Belgium **Supplies Distributors SA**, having its registered office at 5, rue Louis Bleriot, 4460 Grace-Hollogne, Belgium, registered with the Crossroads Bank for Enterprises under the number 0475286142,

represented by Mr. **Thomas J. Madden, Chief Financial Officer, and Christophe Pecoraro, Managing Director**,

hereinafter referred to as "**the Tenant**",

The Landlord and the Tenant are hereinafter jointly referred to as "**Parties**" or individually as a "**Party**";

WHEREAS:

1. The Tenant is looking to expand its distribution and warehouse activities in Belgium.
2. The Tenant and the Landlord have entered into negotiations, in view of concluding a Logistics Warehouse Lease Agreement pursuant to which the Tenant would rent from the Landlord premises in building "Trilogiport 2, building 1/B" located at Trilogiport (Liege), comprised of Logistics Warehouse Space, Office Space and Parking Places, on the terms and conditions of or referred to in this Logistics Warehouse Lease Agreement (this "Agreement").

THE FOLLOWING HAS BEEN AGREED:

Article 1 - The Leased Premises

- 1.1. The Landlord leases to the Tenant, who accepts, the following surfaces in or adjacent to an industrial building (hereinafter: "**the Initial Leased Premises**") located at **Trilogiport (Liege), building 1/B**:
 - 9,608m² of logistics warehouse space (hereinafter referred to as the "**Warehouses**");
 - approx. 825m² of office space (entirety of the ground floor and half of the first floor the Leased Premises (hereinafter referred to us the "**Offices**");
 - approx. **46** parking places for cars, and **2** parking places for trucks (hereinafter referred to as the "**Parking Places**").

The Leased Premises are indicated on the situation plan which is attached to the present Agreement as

Appendix 1 Part A

1.2. Upon exercise of the Option referred to in Article 25, the Initial Leased Premises shall automatically be varied and amended to include the Additional Warehouse Space (as defined in Article 25 below) and the Additional Warehouse Space shall constitute an integral part thereof for purposes of this Agreement as from the Option Effective Date and all of its provisions shall apply in respect of the Initial Leased Premised and the Additional Warehouse Space (herein individually or jointly as the "**Leased Premises**") for the remainder of the term of this Agreement.

The total Additional Warehouse Space is indicated on the situation plan which is attached to this Agreement as **Appendix 1 Part B**.

1.3. The Landlord warrants that it holds a concession to the plot on which the Leased Premises have been built, free of any encumbrances, attachments, rights of easement, pre-emption rights or similar rights held by third parties that may have an adverse effect on the Landlord's capacity to lease the Leased Premises to the Tenant or on the Tenant's right to use the Leased Premises for its operational business activities on the terms hereof.

Article 2 - Purpose of the Leased Premises

2.1. The Tenant shall only use the Leased Premises for the purpose of storing goods in general and for activities relating to handling, storage, transportation, and distribution of those goods, and for ancillary office and parking. The ancillary Offices (of which the surface currently is - and always must be - less than 10 % of the total surface of the Leased Premises) can only be used as office space.

2.2. Parties expressly agree that the Leased Premises can in no event be used by the Tenant for carrying out activities which could be qualified as retail trade or as an activity as a craftsman in direct contact with the public, and as a result of which the present Agreement would be governed by the Belgian law of 30 April 1951 on commercial leases.

2.3. In no event can the purpose or use of the Leased Premises be modified by the Tenant without the prior, written and express consent of the Landlord, who may always refuse. Furthermore, any such modified purpose or use shall only be allowed subject to any and all approvals required from local or other competent authorities.

Article 3 - Use of the Leased Premises

3.1. The Tenant shall be solely responsible for the obtaining of all licenses, authorizations and/or permits that might be required under applicable and future federal, regional or local laws and regulations with respect to the Tenant's use and operation of the Leased Premises, as described in Article 2 above.

3.2. The Tenant undertakes to use the Leased Premises as a *bonus pater familias* (i.e. normally prudent person in similar circumstances) and not to exercise any activity of which it could reasonably be expected that such activity would materially disturb the occupants of the adjacent and neighbouring parcels.

3.3. The Tenant shall furthermore use and operate the Leased Premises in compliance with all the applicable legal and regulatory requirements, such as requirements concerning fire safety and technical installations, as imposed by any advices or reports by the fire department, and the general regulations on electrical installations ("*RGIE*" or "*Reglement general des installations electriques*" / "*AREI*" or "*Algemeen Reglement voor Elektrische Installaties*").

3.4. The Tenant undertakes to observe all the operating rules for the Leased Premises, as the Landlord may establish and communicate in advance from time to time in writing to the Tenant. Such operating rules shall be reasonable and shall always take into account the Tenant's legitimate business expectations.

Article 4 - Compensation

4.1. The base Rental Fee consists of:

- € 3.70 €/ m² / month for the Warehouses; and
- € 7.50 €/ m² / month for the Offices, provided the Tenant shall be granted a partial rent free period up to July 31st 2021 in respect of 275 m² of the 825 m² office space referred to in Article 1.1.

Both amounts are to be increased with VAT.

4.2. The Rental Fee is payable in advance, quarterly, at the latest on the first day of the months of January, April, July and October of each calendar year (and for the first time pro rata on 1 September 2020).

Payments shall be made to the bank account held by the Landlord with ING Bank and account number BE 74 3631 9461 7507.

4.3. Overdue Rental Fees shall bear interest at the EURIBOR (3 months) interest rate, to be increased with 5% per annum, as from the date the payment is due but subject to prior notice by the Landlord.

Article 5 - Adjustment of the Rental Fee

5.1. The Rental Fee is linked to the health index as published each month in the Belgian State Gazette.

5.2. The Rental Fee will be adjusted automatically and as of right each year on 1 September (and for the first time on 1 September, 2021), in accordance with the following formula:

$$\text{New Monthly Rental fee} = \frac{\text{Monthly Rental Fee X New index}}{\text{Based index}}$$

whereby

- Monthly Rental Fee = the monthly Rental Fee referred to in Article 4 of the present Agreement;
- base index = the health index of the month preceding the month during which Parties signed present Agreement, namely the index of July 2020 (with 2013 = 100);
- new index = the health index of the month preceding the month of the adjustment of the Rental Fee.

5.3. In the event that the calculation and the publication of the health index should be discontinued or cancelled, the Rental Fee will be linked to the consumer price index. In the event that the calculation and publication of the consumer index should be discontinued-or cancelled, the Rental Fee will be linked to the new index published by the Belgian government which might replace the consumer price index. In the event that no new official index is published and Parties fail to agree on a new method of adjusting the Rental Fee, the method of adjustment will be determined by an expert appointed by the Commercial court ("Tribunal de l'Entreprise"/"Ondememingsrechtbank") of Liege.

Article 6- Commencement and duration

6.1. The lease by the Tenant of the Leased Premises under the present Logistics Warehouse Lease Agreement shall start on 1 September 2020 (the "**Commencement Date**"), for an initial period of 10 years (to expire on 31 August 2030), it being understood that the Tenant may terminate the Agreement early on the 5th

anniversary of the Commencement Date, subject to a 6 month prior notice, without any consideration for early termination being due to the Landlord.

6.2. Following the expiry of the 10 year period referred to in Article 6.1. above, this Agreement will be automatically extended for subsequent periods of 3 years, unless one of the Parties expressly terminates the present Agreement not less than (i) 6 months prior to the end of the 10 year period referred to in Article 6.1. above or (ii) 6 months prior to the end of the applicable three year extension period.

6.3. Notices hereunder shall be deemed given and effective in accordance with Article 23.2. of this Agreement.

6.4. For purposes of cost and expenses allocation, to be invoiced to the Tenant as a Service Charge, the Parties clarify that the total surface area of the Leased Premises correspond to (i) approx. 42.1 % of the total surface area of the Trilogiport 1/B building prior to exercise of the Option and (ii) 100% % of the total surface area of the Trilogiport 1/B building as from exercise of the Option.

Article 7 - Transfer of rights and disposal to third parties

7.1. The Tenant may sublet the Leased Premises (wholly or partially) to third parties ("sub-lease"), provided such third party is not a competitor of the Landlord and complies with (and remains within the limits set out as to) the purpose and the use of the Leased Premises as described in articles 2 and 3 above. The Tenant shall not be allowed to assign its rights (wholly or partially) under this Agreement without the Landlord's prior written consent, which shall not be unreasonably withheld, delayed or denied.

No such prior written permission shall be required, however, in case of assignment to an affiliate of the Tenant (whereby "affiliate" shall have the meaning of "*societe liee/verbonden vennootschap*" and/or "*societe associee/geassocieerde vennootschap*" as referred to in articles 1:20 and 1:21 of the Belgian Company Code) and for as long as the assignee qualifies as an affiliate of the Tenant.

7.2. The Landlord may assign its rights to a third party, provided that the Tenant's rights under the present Warehouse Logistics Lease Agreement are fully respected. In case of reasonable doubt as to whether this will be the case, the Landlord shall first seek and obtain the Tenant's approval prior to proceeding with such assignment.

Article 8 - Taxes and charges

8.1. Taxes

8.1.1. Any taxes, duties and contributions whatsoever with respect to the Leased Premises including the real estate withholding tax ("*precompte immobilier/onroerende voorheffing*") are to be borne by the Tenant during the term of the present Agreement, pro rata the share of the Leased Premises in the overall site area at the relevant date (as defined in article 6.4. above).

8.1.2. Furthermore, all taxes, duties and contributions related to the activities of the Tenant in the Leased Premises and, in general, related to the occupation and use of the Leased Premises by the Tenant, are to be borne exclusively by the Tenant.

8.1.3. Further to the obligations of the Tenant sub article 8.1.1. above, the Landlord undertakes to make the necessary and correct applications or notifications to the authorities, upon the Tenant's written request, so as to ensure that the authorities are in a position to calculate the taxes, duties or contributions on the basis of correct data. The Landlord shall, to the exclusion of any liability for the Tenant in this respect, bear any costs, fines, or excess taxes, duties or contributions, that are the result of the Landlord not having filed the necessary and correct applications or notifications mentioned above within 2 months from the Tenant's written request.

8.2. Service Charges

8.2.1. On top of the Rental Fee, the Tenant shall pay a Service Charge to the Landlord. This Service Charges will include the pro-rata proportion of the Leased Premises at the relevant date corresponding to the overall site area (as defined in article 6.4. above) of (i) any present/future national/local taxes imposed by the authorities upon the Leased Premises, (ii) the insurance costs incurred by the Landlord for insuring the Leased Premises (in compliance with its obligation as provided for in article 9.1 below), and (iii) to the extent not included in the individual contracts the Tenant will enter into with services or utilities suppliers pursuant to article 8.3 or 8.4. below, costs of heating, water, gas, electricity, telephone, installation and maintenance of water, gas and electricity meters, each time for the communal sections of the premises, elevators, electrical and electromechanical installations, lighting, periodical inspections of fire protection installations, site access security, maintenance and cleaning, each time of the communal sections of the premises, and costs of personnel in charge of maintenance and/or security of the communal sections of the building. For the avoidance of doubt, any such items referred to under (iii) that would be for the exclusive use of the Tenant, that are a specific requirement of the Tenant or that are specific to the Tenant's activity or business operations, will be re-invoiced by the Landlord to the Tenant over and above its pro rata Service Charge.

8.2.2. The Service Charge shall be paid quarterly in advance, on an open book basis, as per the timing described in article 4.2. above. In case of overdue payments, article 4.3. above shall apply.

8.3. Services

8.3.1. The Tenant will contract, at the Tenant's costs, all the maintenance services and supplies in connection with the Leased Premises as included in the Services List, attached to the present Agreement as **Appendix 2** (hereinafter referred to as the "**Services**").

8.3.2. The Tenant undertakes for the full term of this Agreement, as a *bonus pater familias* and in accordance with the requirements of good management, to conclude all maintenance and supply agreements mentioned in the Services List. The Tenant shall inform the Landlord of the conclusion of these agreements. It shall promptly provide the Landlord, upon request of the Landlord, with proof and certification of duly carried out review and maintenance of technical equipment used by the Tenant in its capacity of Tenant.

8.3.3. The Landlord has the right to inspect the Leased Premises in view of verifying compliance by the Tenant with its obligations under the present article 8.3. If the Tenant does not contract or have the Services performed properly, the Landlord will notify the Tenant in writing to comply within thirty (30) calendar days. If the Tenant fails to comply therewith, the Landlord is entitled to take over any such supply, services and maintenance of the Leased Premises. The costs thereof shall be invoiced by the Landlord to the Tenant, via the quarterly Service Charge mentioned above in article 8.2.

8.4. Utilities

The Tenant will take out individual contracts with utilities suppliers (water, gas, electricity, telephone & internet) to cover the Tenant's own utilities requirements, and the Tenant shall pay the corresponding costs directly to the utilities' suppliers concerned.

Should, for technical reasons due to intrinsic constraints or conditions of the Leased Premises, taking out such individual contracts turn out be impossible or unreasonably difficult (e.g. because of material difficulties to install or adjust measurement appliances, systems, wirings, piping, etc...), then the Landlord shall provide to the Tenant such utilities under the Landlord's own contracts with the utility suppliers, and such utilities shall be invoiced under the Service Charge referred to under Article 8.2. above.

Article 9 - Insurance

9.1. The Landlord undertakes to take out and maintain during the entire term of this Agreement an insurance with respect to the Leased Premises (covering fire and water damage, storm and hail damage, civil liability as well as all windows in the Leased Premises) at rebuilding value. The insurance premiums in relation thereto shall be charged to the Tenant, pro rata the share of the Leased Premises in the overall site area where the Leased Premises are located, as per Article 6.4. above.

9.2. The Tenant undertakes to take out and maintain during the entire term of this Agreement an insurance with respect to the equipment and inventory used/ stored by or on behalf of the Tenant in the Leased Premises, and adequately covering the risks of fire, water damage, storm and hail damage, civil liability, as well as the Tenant's professional liability.

9.3. Each Party shall submit proof of such insurance to the other Party at the latter's first request.

9.4. Subject to and to the extent of the effective intervention of the aforementioned insurance compan(y)(ies), the Parties mutually waive any recourse they might be entitled to exercise against each other for any damage they might suffer because of the occurrence of the insured risks, except for loss resulting from gross negligence or intentional misconduct.

Article 10 - Signage

10.1. Advertising signs and/or satellite dish(es) on and around the Leased Premises can only be installed by the Tenant if the latter has obtained express, prior and written consent of the Landlord, which shall not be unreasonably withheld. When consenting to such signage, the Landlord is entitled to impose conditions related to the dimensions, the colours and the content of such signage.

10.2. Without prejudice to the above, the placement and the removal of the advertising signs and satellite dish(es) are at the costs and risk of the Tenant who shall be also responsible for obtaining all necessary authorisations and permits, without any obligation for the Landlord to intervene in this respect.

Article 11 - State of Delivery of the Leased Premises at the Commencement Date

11.1. Before the Tenant commences its occupation of (i) the Initial Leased Premises on the Commencement Date respectively (ii) the Additional Warehouse Space, a "State of Delivery of the Leased Premises" will be drawn up. This document will be drawn up jointly by the Parties, or by an expert appointed by them in mutual agreement. Both the Tenant and the Landlord shall each pay 50% of the costs of such an expert.

In case of alterations and modifications of the Leased Premises after the commencement of the Lease, each Party shall be entitled to require that a new addendum to the State of Delivery of the Leased Premises is drawn up, reflecting such alterations and modifications and specifying, as the case may be, whether such alterations or modifications need to be reinstated by the Tenant at the end of the lease.

Each addendum as described above shall be drawn up jointly by the Parties, or by an expert appointed by them in mutual agreement, in which case they shall each pay 50% of the costs of such an expert.

11.2. The abovementioned "State of Delivery of the Leased Premises" will be signed by the Tenant and the Landlord on the Commencement Date and will then be attached to this Agreement as **Appendix 3**.

Article 12 - Repair and maintenance of the Premises

12.1. The Tenant shall occupy the Leased Premises with due and proper care. The Tenant undertakes to keep the Leased Premises at its own cost in a constant good state of maintenance and repair during the entire term of the present Agreement, and it shall be responsible for all maintenance and repair of the Leased Premises, to the exception of the maintenance and repair obligations for the Landlord, as further set out in Article 12.2. below.

12.2. The Landlord is responsible for structural works and major repairs as referred to in the articles 605 and 606 of the Belgian Civil Code. Are to be considered such "major repairs" ("*grosses reparations/grove herstellingen*") and are to be carried out by the Landlord at the latter's own expense, a.o. works of maintenance and repair relative to the structure, the stability, the foundations, the floor, the roof and the external walls of the Leased Premises. The Landlord will carry out these works and repairs within a reasonable period and will use commercially best efforts to minimize interference with Tenant's business operations. If the repairs take longer than thirty (30) days (from receipt by the Landlord of a notification by the Tenant informing him of the structural defects or necessary major repairs) to complete due to a failure by the Landlord to comply with its

obligations hereunder, the Rental Fee will be reduced in proportion with the significance and magnitude of the inconvenience caused by the necessary structural works or major repairs as from the end of the calendar month in which such remedial period expires, until the date the relevant works are substantially completed and the Leased Premises are again fully tenantable by the Tenant. In case of the works and repairs under this Article are not substantially completed due to a failure by the Landlord to comply with its obligations hereunder within sixty (60) or more days from receipt by the Landlord of the above referenced notification by the Tenant and the Premises are completely untenable, Tenant shall also have the option, at Tenant's discretion, to terminate the Agreement without consideration for early termination being due to the Landlord but without prejudice to the further provisions of this Agreement.

12.3. The Landlord may require the Tenant to carry out all necessary repair and maintenance works for which it is responsible pursuant to article 12.1 above, and to complete such works within four (4) weeks as from receipt by the Tenant of a notification by the Landlord in this respect. Should the Tenant fail to meet these obligations, the Landlord is authorized to have the works carried out in order to maintain and restore the Leased Premises in good condition at the expense and risk of the defaulting Tenant. In such event the Tenant will reimburse all costs of those works, provided the Landlord provides the Tenant with the necessary documents (invoices) proving those costs.

12.4. The Tenant will tolerate the execution of all structural works, repairs or improvements which might become necessary during the term of present Agreement and this regardless the duration of said structural works, repairs or improvements. The Landlord shall however always ensure, when planning such works, that the impact of such works on the Tenant's operational activities is reduced to an absolute minimum; the Landlord shall comply with any reasonable recommendations the Tenant may issue to the Landlord in this respect.

12.5. The Tenant will inform the Landlord as soon as reasonably possible following discovery of circumstances requiring the carrying out of any structural works or major repairs incumbent upon the Landlord.

12.6. The Tenant must ensure the safety of the Leased Premises. The Tenant expressly relieves the Landlord from any liability in the event of damages caused by theft, riot and any other action beyond the Landlord's reasonable control or by third-parties, that arise in front of or in the Leased Premises or in the immediate vicinity, as well as from any responsibility in connection with the foregoing, except if caused by the Landlord, its employees and representatives.

Article 13 - Alteration and modification of the Leased Premises

13.1. The Tenant is entitled to fix partitions and lighting systems in the Leased Premises and to carry out small works and improvements necessary for or useful to its operational activities.

13.2. Significant alterations or works are not permitted, unless prior written consent has been given by the Landlord. The Landlord will not withhold such consent unreasonably.

13.3. Any works, alterations or improvements to be carried out pursuant to this Article 13, shall be carried out at the Tenant's sole risk and expense. The Tenant shall at its own cost obtain all necessary permits and approvals for any such intended works.

13.4. The Landlord shall carry out and bear the costs of the works and improvements to be conducted by the Landlord as described in Appendix 7 on the terms and within the timeframe set out therein.

13.5. Upon the termination of this Agreement, and unless otherwise requested by the Landlord, or otherwise indicated by the Parties in an addendum to the State of Delivery of the Leased Premises as drawn up in accordance with article 11.1 above, all alterations, modifications or works carried out by the Tenant shall remain in the Leased Premises; however, if the Landlord will request such alterations to be removed from the Leased Premises by the Tenant, such will be at the Tenant's exclusive cost.

Article 14 - Return of the Premises

14.1. At the end of the term of the present Agreement, the Tenant shall return the Leased Premises well-maintained and clean, in the same state and good condition as it was recorded in the State of Delivery of the Leased Premises, as referred to in Article 11 above. As soon as the Tenant has completed his evacuation from the Leased Premises, and in any event on the latest day of the term of the present Agreement, the Parties will, jointly, draw up a new state of the Premises (the "**Return State of the Leased Premises**"). The Return State of the Leased Premises shall indicate the damages in or to the Leased Premises for which the Tenant is responsible and liable (whereby it is understood that the Tenant shall never be liable for deterioration of the Leased Premises as a result of 'fair wear and tear').

In case of disagreement between the Parties on the content of the Return State of the Leased Premises, the Parties will address this matter as soon as possible to an independent expert specialized in real estate. This expert shall be appointed by the Parties or, failing agreement between the Parties, at the request of either Party, by the President of the Commercial Court ("Tribunal de l'Entreprise/Ondernemingsrechtbank") of Liege. The decision of the expert shall be binding to the Parties and both the Tenant and the Landlord shall each pay 50% of the costs of that expert.

14.2. To the exception of deterioration of the Leased Premises as a result of 'fair wear and tear', the Tenant shall be liable for any damage to the Leased Premises, caused by an act or omission on its part or its representatives or employees.

Article 15 - Expropriation

In the event that the Leased Premises, either in part or in their entirety, are expropriated, the Tenant will have no right of recourse against the Landlord. The rights which the Tenant may assert against the expropriating authority shall at no time affect the rights which the Landlord shall have against the expropriating authority. Upon a final and binding decision to expropriate the Landlord of a substantial part or the entirety of the Leased Premises, Tenant shall have the right to immediate termination.

Article 16 - End of the Agreement - Visits to the Premises

16.1. During the six (6) months preceding the termination of the Agreement or in the event of an intended sale of the Leased Premises, the Landlord or its representatives are authorized to visit the Leased Premises with a person appointed by the Tenant, subject to prior notification (at least 72 hours during the first year from Commencement Date and 48 hours thereafter) to the Tenant and execution of documentation required by Tenant pursuant to its internal policies. When planning such visits, the Landlord shall take into account the Tenant's operational activities, and shall limit the frequencies of such intended visits to one day a week (such day to be mutually agreed upon by the Landlord and the Tenant).

16.2. During the six (6) months preceding the termination of the Agreement or in the event of an intended sale of the Leased Premises, the Landlord is entitled to fix the necessary advertising signs and announcements on the Leased Premises, announcing the putting at the disposal or sale of the Leased Premises.

Article 17 Fire Safety

17.1. The Tenant must ensure that all technical requirements specific to the operation, including fire safety, are met. The Tenant undertakes, among other things, to provide the Leased Premises with the necessary equipment for the prevention and control of fire at his own expense and this in function of the standards and requirements that are or would be prescribed by any competent administrative authority, possibly also by the insurers of either Party. In accordance with the safety regulations, any non-automatic fire-resistant doors must never be left open.

17.2. The Tenant must obtain approval from an accredited body on any modification made to the Leased Premises certifying that such modification has been carried out in accordance with the fire regulations. A copy of such approval will be submitted to the Landlord within 30 calendar days after the completion of the modifications works or after such approval would later prove necessary. If the accredited body makes such

approval dependent on additional fire protection requirements, the Tenant will immediately inform the Landlord. The Tenant shall, where appropriate, at its expense and in agreement with the Landlord, have the adjustment work required by the accredited body carried out without delay. If the insurers should impose additional fire protection measures, the Tenant will comply with this in the manner specified above.

17.3. The Tenant undertakes not to store, process or tolerate any goods and / or liquids in the Leased Premises that are flammable and/ or explosive, except to the extent allowed pursuant to the Tenant's insurance cover and in compliance with local fire regulations and authorisation requirements.

17.4. The Tenant undertakes to strictly comply with all fire safety obligations, including - without being limited to - those indicated in the preceding paragraphs. In the absence thereof, the Landlord reserves the right to access to the Leased Premises in order to take all measures at the expense and risk of the Tenant to safeguard his rights and/ or to impose a prohibition on the Tenant from continuing his business activities without being freed from its other obligations. The Landlord will only exercise this right in the event of an acute risk for persons and / or the Leased Premises and after prior notice.

Article 17bis - Environment and soil

17.1.bis The Tenant shall at all times use its best efforts to minimize the impact of its activities on the environment and human health as required in accordance with applicable laws and regulations.

17.2.bis On or about the Commencement Date, the Landlord will have conducted an exploratory soil survey of the Leased Premises, at its own cost. This exploratory soil survey will be attached to the present Agreement as Appendix 5. Should this survey reveal the presence of any soil or groundwater contamination on the site, the Landlord shall proceed with conducting a descriptive and risk assessment soil survey, and, if required under the Walloon Decree of 1 March 2018 on soil management and remediation ("Decret relatif a la gestion et a l'assainissement des sols"), with the necessary soil remediation measures. The Landlord shall, both during the term of the present Agreement and afterwards, fully indemnify the Tenant and hold the Tenant harmless for all damages and costs resulting from the presence of harmful substances or contamination, as this may result from Appendix 5, including but not limited to liabilities towards or claims from public authorities.

17.3.bis Prior to the termination of this Agreement, the Tenant will, at its sole expense, carry out an exploratory soil survey of the Leased Premises. If the results of this exploratory soil survey indicate that there are concentrations of substances in the soil and/or the groundwater of the Site exceeding the concentrations included in Appendix 5, and/or which give cause to further survey measures and/or soil remediation measures, the Tenant will have these further surveys and soil remediation works carried out, at its own costs. The Tenant shall fully indemnify the Landlord and hold the Landlord harmless for all damages and costs resulting from the presence of harmful substances other than the ones identified in Appendix 5, including but not limited to liabilities towards or claims from public authorities, unless and to the extent the Tenant is able to prove that such contamination is not due to the Tenant's activities, actions or negligence.

Article 18 - Terms of the Property Title

18.1. The Landlord confirms and warrants that the concession deed it entered into with the Harbour of Liege on 12 June 2019 does not contain any specific obligations in connection with the intended use of the Leased Premises or any other mandatory provisions that are to be complied with by the Tenant other than as provided for in this Agreement.

Article 19 - Bankruptcy- Default

19.1. In the case of bankruptcy or liquidation, either voluntary or involuntary, of a Party to this Agreement, in the event of the winding-up of such Party, in the event of seizure on any of the assets of such Party or if such Party is in default of any of its obligations under this Agreement and fails to remedy such breach within 45 days after having been put on notice to do so, the other Party shall be entitled to terminate the present Agreement, without any damages being due by the terminating Party.

19.2. In the event that the Agreement is terminated for cause by the Landlord, the Tenant shall bear all costs, charges and expenses arising therefrom and, in addition thereto shall pay the compensation due under this Agreement until the end of its contractual term or, where relevant, the date of early termination notified by the Tenant in accordance with the provisions of article 6 above, increased by the charges, taxes, and contributions for the same period, without prejudice to the other provisions of this Agreement (the "**Tenant Damages for Wrongful Termination**"). In the event, however, that the Tenant secures a third party-replacement tenant, reasonably acceptable to the Landlord and of Tenant's repute and financial standing (assessed on the date of the date of this Agreement), that effectively leases the Premises starting no later than on the 12 month-anniversary of the date of termination for cause by the Landlord and on terms at least equivalent to the Tenants' lease terms applicable as per that date, the Tenant Damages for Wrongful Termination shall be in an amount equal to 12 months of Rental Fee, plus its share in the costs, taxes, taxes and contributions for the same period. Should the Landlord effectively secure a lease within 6 months as from the date of termination for cause by the Landlord on terms at least equivalent to the Tenant's lease terms applicable as per that date, the Tenant Damages for Wrongful Termination shall be in an amount equal to 12 months of Rental Fee, plus its share in the costs, taxes, taxes and contributions for the same period. None of the foregoing shall preclude the Landlord from claiming additional indemnification if it evidences that it has incurred a larger damage, in order for its entire damage to be covered appropriately.

Article 20 – Registration

20.1. The Landlord is responsible for the registration of the present Agreement. The registration duty (referred to in article 21.2 below) shall be paid by the Tenant at the Landlord's first request (whereby the Landlord shall add proof of registration).

20.2. Given the fact that present Agreement is to be considered as an agreement pursuant to which the Leased Premises are put at the disposal of the Tenant for activities as described in article 18, § 1, second section, 9° of the Belgian VAT Code, the present Agreement will be registered at the fixed registration duty of €50.

Article 21 - Language

21.1. The Parties acknowledge that they have required the present Agreement to be drawn up in the French and the English language. The French version will be used for registration purposes. The English version will be attached to the French version as **Appendix 4** and the French version will be attached to the English version as **Appendix 4**. In the event of discrepancies between the versions, the English version will prevail.

21.2. The Parties and the Guarantor acknowledge that they have required all notices and legal proceedings provided for hereunder or related hereto, to be drawn up in the English language, to the extent permitted by rules of public policy relating directly or indirectly to these proceedings.

Article 22 - Choice of residence - Notices

22.1. For purposes of this Agreement, the Parties and the Guarantor elect domicile at their respective registered office.

22.2. Any notice under this Agreement shall be given by bailiff's writ or by registered letter. Notices hereunder shall be deemed given and effective (i) if delivered by a bailiff, upon delivery, or (ii) if sent by registered mail within two (2) business days of deposit in the post office.

Article 23 - Various provisions

23.1. This Agreement, including its Appendices, contains the entire agreement of the Parties hereto and the Guarantor with regard to the object to which it refers and contains everything the Parties and the Guarantor have negotiated and agreed upon within the framework of this Agreement.

No amendment or modification of this Agreement shall take effect unless it is in writing and is executed by duly authorized representatives of the Parties and the Guarantor.

The Appendices to this Agreement form an integral part thereof and any reference to this Agreement shall include a reference to the Appendices and vice versa.

The present Agreement replaces and annuls any agreement, communication, offer, proposal, or correspondence, oral or written, previously exchanged or concluded between the Parties and/or the Guarantor and referring to the same object.

23.2. Notwithstanding any provision contrary to the present Agreement, neither Party shall be liable for a delay or failure to fulfil its obligations under this Agreement arising from any cause beyond its reasonable control or arising from strikes, lockouts, work stoppages or other collective labour disputes, insofar that the Party invoking the force majeure informs the other Party as soon as reasonable possible of the occurrence and the estimated duration and the termination thereof, as well as an accurate description of the causes thereof. In case the situation of force majeure has a duration of one consecutive (1) month, the provisions of Article 12.2. of this Agreement shall apply mutatis mutandis.

23.3. If one or more of the provisions of this Agreement is declared to be invalid, illegal or unenforceable in any respect under the applicable law, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected. In the case whereby such invalid, illegal or unenforceable clause affects the entire nature of this Agreement, each of the Parties and - as the case may be - the Guarantor shall use its best efforts to immediately and in good faith negotiate a legally valid replacement provision which is economically equal to the affected clause.

23.4. No failure or delay of a Party to exercise any right or remedy under this Agreement shall be considered a final waiver thereof, nor shall any single or partial exercise of any right or remedy preclude any other or further exercise thereof. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

Article 24 -Applicable law and jurisdiction

24.1. The present Agreement is exclusively governed by Belgian law, without regard to its conflict of-law rules.

24.2. The commercial court ("Tribunal de l'Entreprise"/"Ondernemingsrechtbank") of Liege will have sole and exclusive jurisdiction with respect to any dispute relating to the conclusion, validity, the implementation or the interpretation of this Agreement.

Article 25 - Specific Provisions: Tenant's option to extend the Leased Premises

26.1. The Tenant shall have the option to extend the Leased Premises up to the entire surface of the Triligiport 1/B building (ie. an additional approx. 13,175.00 m² of logistics warehouse space indicated on the situation plan attached to the present Agreement as Appendix 1 Part B; hereinafter referred to as the "Additional Warehouse Space"), effective no later than 31 July 2021, on the terms referred to in this Article 25 (the "Option").

25.2. If the Tenant elects to exercise the Option, it shall notify the Landlord by no later than by 30 April 2021, together with a copy of:

- (i) the duly executed agreement between CBRE Global Investors (or its successor or assign), as landlord, and Supplies Distributors SA, the legal successor of PFSweb SPRL, as tenant, on the early termination of the tenant's current lease agreement with CBRE Global Investors in respect of 13,274 m² of logistics warehouse space and 1,222 m² of office space at Zoning Industriel "Cargo Village" at 5, rue Louis Bleriot, 4460 Grace-Hollogne (the "**Bierset Premises**") executed on December 4th, 2017 as per 30 March 2022 or, at the Landlord's sole discretion, 30 September 2024, in accordance with article 3.2 (and without any termination fee or payable being payable and without variation or amendment of any of the other terms) of the lease agreement attached hereto as **Appendix 6** (the "**Bierset Lease**");

- (ii) the formal approval by CBRE Global Investors (or its successor or assign), as landlord, on the sublease by Supplies Distributors SA, the legal successor of PFSweb SPRL of the Bierset Premises to Weerts Supply Chain NV (or any affiliate designated by it), (a) for the period as from no later than the Option Effective Date (as defined below) for the remainder of the term of the Bierset Lease, and (b) without variation or amendment of any of the further terms of the Bierset Lease (other than, for the avoidance of doubt, the early termination as per item (i) above); and,
- (iii) the number of square meters of Additional Warehouse Space for which the Option is exercised.

If the Option is not (timely) exercised and/or the exercise notice does not include the above elements or the formal agreement and approval respectively under items (i) and (ii) above, the Option shall automatically lapse at 23.59 pm on 30 April 2021.

25.3. In case of valid exercise of the Option, the Parties shall promptly enter into (a) a sublease agreement in respect of the Bierset Premises on terms mirroring those of the Bierset Lease, and (b) a supplementary lease agreement in respect of the Additional Warehouse Space on terms identical to the terms of this Agreement, except for:

- (i) the commencement date of such supplementary lease, which shall be the 1st of the calendar month immediately following the three (3) month-anniversary of the date of exercise of the Option (the "**Option Effective Date**"); and,
- (ii) the term of such supplementary lease shall be calibrated such that it coincides with the term of this Agreement.

Done in Liege, on September 9, 2020, in three original counterparts, each Party acknowledging receipt of a fully executed original copy, and one remaining counterpart being intended for the registration office. The present Agreement will apply and shall be effective as from September 1, 2020.

[SIGNATURE PAGE FOLLOWS]

THE LANDLORD

/ s / Yves Weerts

Name: Mr. Yves Weerts

Function: CEO

THE TENANT

/ s / Christophe Pecoraro

Name: Mr. Christophe Pecoraro

Function: Managing Director

/ s / Thomas J. Madden

Name: Mr. Thomas J. Madden

Function: CFO

Prologis Clear Lease

Simplify your lease. Simplify your business.

THIS LEASE is made between Landlord and Tenant as of the Effective Date below.

1. General Defined Terms.

- a) **Effective Date:** July 17, 2020
- b) **Landlord:** ProLogis Texas II (2) LLC, a Delaware limited liability company
- c) **Landlord Notice Address:** Prologis *With copy to:* Prologis
 2021 McKinney Avenue Suite 1050 Attn. General Counsel
 Dallas, Texas 75201 1800 Wazee Street
 Suite 500
 Denver, CO 80202
- d) **Tenant:** Priority Fulfillment Services, Inc., a Delaware corporation
- e) **Tenant Notice Address:** Priority Fulfillment Services, Inc. *With copy to:* Same
 505 Millennium Drive Attn: General Counsel
 Allen, TX 75013
- f) **Premises:** That portion of the Building containing approximately 57,400 rentable square feet as shown on Exhibit A.
- g) **Building:** Freeport Corp Ctr 4
 9250 N. Royal Lane
 Irving, TX 75063
- h) **Project:** Freeport Corp Ctr 4. The term "Project Areas" as used hereinafter shall mean the areas of the Project that serve the Premises or are adjacent to the Premises.
- i) **Tenant's Proportionate Share of Taxes:** 50.00%
- j) **Lease Term:** Beginning on the Commencement Date and ending on the day which is 64 full calendar months following the Commencement Date (the "Expiration Date").
- k) **Commencement Date:** The later of (a) 08/15/2020, or (b) Substantial Completion of the Initial Improvements stated on Exhibit C-1 and C-3.
- l) **Monthly Base Rent:**

	<u>Period</u>	<u>Monthly Base Rent</u>
Month 1	through Month 4	*USD\$31,091.67
Month 5	through Month 13	USD\$31,091.67
Month 14	through Month 25	USD\$32,024.42
Month 26	through Month 37	USD\$32,985.15
Month 38	through Month 49	USD\$33,974.70
Month 50	through Month 61	USD\$34,993.94
Month 62	through Month 64	USD\$36,043.76

*Monthly Base Rent is abated during this period. Monthly FOE and Taxes will be due as provided in the Lease during this period.
- m) **Monthly Fixed Operating Expenses ("Monthly FOE"):**

Operating Expenses:	USD\$4,964.14
Capital Repairs/Replacements:	USD\$717.50
Total Monthly FOE: USD\$5,681.64	
- n) **Annual FOE Increase:** 2.40%
- o) **Monthly Taxes (Initial Estimate):** USD\$6,314.00
- p) **Security Deposit:** USD\$49,000.00 in the form of Cash
- q) **Landlord Broker:** NAI Robert Lynn
- r) **Tenant Broker:** Jones Lang Lasalle Americas, Inc.
- s) **Exhibits:**
 - Exhibit A - Site Plan
 - Exhibit B - Project Rules and Regulations
 - Exhibit C - Construction (Turnkey)
 - Exhibit D - One Renewal Option at Market

2. Granting Clause. In consideration for performance of Tenant's obligations under this Lease, Landlord leases to Tenant, and Tenant takes from Landlord, the Premises for the Lease Term, subject to the provisions of this Lease. Tenant represents and warrants to Landlord that the individual executing this Lease on behalf of Tenant is authorized to do so, and Tenant has taken all necessary actions for this Lease to be binding and enforceable.

3. Acceptance of Premises. Subject to the Initial Improvement listed on Exhibit C-1 being delivered in the Required Condition as provided herein, Tenant accepts the Premises in its "as-is" condition as of the Commencement Date. Tenant waives any implied warranty that the Premises is suitable for Tenant's intended purposes. Within 10 days after the Initial Improvements listed on Exhibit C-1 and C-2 are completed in the Required Condition and at the request of the Landlord, Tenant shall execute and deliver to Landlord a certificate stating the Commencement Date of the Lease. Occupation of the Premises by Tenant prior to the Commencement Date shall be subject to all obligations of Tenant under this Lease except for the payment of Monthly Base Rent, Monthly FOE, and Monthly Taxes. As used herein, the "Required Condition" shall mean the Initial Improvements (as defined in Exhibit C-1 and C-2) are Substantially Complete (as defined in Exhibit C), with all building systems (including, without limitation, electrical, water, plumbing, HVAC, loading doors, dock equipment, roof, and other mechanical systems) in good working order, free of any latent defects of which Landlord has knowledge and in compliance with all Legal Requirements, including, without limitation, the Americans With Disabilities Act. Landlord represents and warrants, that as of the Commencement Date the Premises' building systems (including, without limitation HVAC, electrical, plumbing, loading doors, dock equipment, roof and other mechanical systems) are in good working order and Landlord warrants such systems for a period of three (3) months after the Commencement Date; provided, however, that such warranty shall not be effective for any maintenance, repairs or replacements necessitated due to the misuse of, or damages caused by, Tenant, its employees, contractors, agents, subtenants, or invitees. Without limiting Landlord's maintenance obligations hereunder, in the event of a breach of the foregoing warranty or if the Premises are otherwise not in the Required Condition, Landlord shall promptly repair the same. Landlord shall also seek and avail itself of all equipment and material warranties related to Landlord's construction, and shall enforce all such warranties against suppliers, manufacturers, and dealers in order to cure any deficiencies which arise during such warranty period without expense to Tenant.

Subject to the vacation of the Premises by the existing tenant, if any, Landlord shall allow Tenant access to the Premises upon vacation of the Premises by the existing tenant, if any, for purposes of preparing the Premises for the commencement of Tenant's normal business operations, subject to applicable ordinances and building codes governing Tenant's right to occupy or perform in the Premises ("Early Occupancy"). During such Early Occupancy period prior to the Commencement Date, Tenant shall be bound by its obligations under the Lease, including the obligation to provide evidence of insurance, but shall not be obligated to pay the Monthly Base Rent payable by Tenant to Landlord as set forth in the Lease.

4. Use. The Premises shall be used only for the purpose of general industrial/warehouse and distribution, light assembly, administrative offices, and other legally permitted uses incidental thereto, including receiving, storing, shipping, subassembly, kitting, and selling (but specifically excluding retail selling) products, and for such other incidental lawful uses. Tenant shall not conduct any public sale at the Premises, use the Premises as a place of public accommodation under the Americans With Disabilities Act or any other Legal Requirements, or permit any nuisance at the Premises. Tenant shall have the right to park operable vehicles and trailers overnight at the truck loading docks and designated truck and trailer parking areas for the Premises and operate automobiles in the designated automobile parking area. Tenant shall not permit any outside storage (other than as expressly permitted under this Lease), Tenant shall use the Premises in compliance with all federal, state, and local laws, orders, judgments, ordinances, regulations, codes, permits, licenses, covenants, and restrictions now or hereafter applicable to the Premises (collectively, "**Legal Requirements**"). Landlord represents and warrants that, as of the Commencement Date, no written notice has been received by Landlord of non-compliance with any Legal Requirements in connection with the Premises. In the event that Landlord receives notice that the Premises is not in compliance with applicable Legal Requirements existing as of the Commencement Date, or which come into effect after the Commencement Date, and such non-compliance is not related to Tenant's specific use of the Premises or Tenant-Made Alterations to the Premises performed by Tenant, Landlord shall make such modifications as may be required by order or directive of applicable governmental authority in order to bring the Premises into compliance with such applicable Legal Requirements without cost or expense to Tenant. Tenant shall, at its expense, make any alterations or modifications to the Premises or Project Areas that are required by Legal Requirements due to Tenant's specific use (as opposed to general industrial/warehouse use) or occupation of the Premises.

5. Monthly Base Rent and Monthly FOE. Upon execution of this Lease, Tenant shall pay to Landlord the first payment of Monthly Base Rent, Monthly Taxes, and Monthly FOE payable under the Lease, and thereafter Tenant shall pay all such payments in advance, without demand, no later than the first day of each calendar month following the Commencement Date (prorated for any fractional calendar month).. Tenant shall make all payments to Landlord (or to such other party or at such location as Landlord may from time to time specify in writing) by Electronic Fund Transfer or Automated Clearing House. Tenant's payment obligations and Landlord's obligations under this Lease are independent obligations. Tenant shall not

abate, reduce, or set-off any amounts payable except as may be expressly provided in this Lease. Without limiting Landlord's other rights and remedies, if Tenant is delinquent in any payment due for more than 5 business days, Tenant shall pay to Landlord on demand as a late charge (and not as a penalty) an amount equal to five percent (5%) of the delinquent sum. Tenant shall not be obligated to pay the late charge until Landlord has given Tenant five (5) business days written notice of the delinquent payment (which may be given at any time during the delinquency); provided, however, that such notice shall not be required more than twice in any 12-month period.

The Monthly FOE payable by Tenant shall be Tenant's reimbursement for Landlord's costs with respect to insurance premiums as provided in Section 9, Landlord's repair and maintenance obligations as provided in Section 10, and the property management fee. Effective on each annual anniversary of the Commencement Date (or, if the first annual anniversary occurs on a date other than the first day of a calendar month, then on the first day of the immediately subsequent calendar month and on each annual anniversary date thereafter), the Monthly FOE shall be automatically increased by the percentage set forth as the Annual FOE Increase.

6. Security Deposit. Tenant shall pay Landlord the Security Deposit upon execution of this Lease as security for the performance of Tenant's obligations. The Security Deposit is not an advance rental deposit, or a measure of Landlord's damages arising from an Event of Default (as hereinafter defined). Upon any Event of Default beyond any and all applicable cure periods and upon notice to Tenant as to the details of such default, Landlord may use the Security Deposit to satisfy Tenant's obligations under this Lease, without prejudice to any other remedy provided herein or by law. Tenant shall pay Landlord, no later than 30 days from demand, an amount that will restore the Security Deposit to the amount required under this Lease. Landlord's obligation with respect to the Security Deposit is that of a debtor, not a trustee. The Security Deposit shall be the property of Landlord, and any remaining amount of the Security Deposit shall be paid to Tenant no later than 30 days after Tenant's obligations under this Lease have been fulfilled. Landlord shall not be required to keep the Security Deposit separate from its general accounts, and no interest shall accrue thereon.

7. Utilities. Tenant shall pay the utility provider directly for all separately metered or contracted utilities serving the Premises, along with any taxes, penalties, or surcharges related thereto. Water and sewer services are included in the Monthly FOE, and Tenant agrees to use commercially reasonable efforts to limit use of water and sewer to amounts consistent with normal restroom, break room, and office use, subject to its compliance with Legal Requirements. Notwithstanding the foregoing, provided that such utilities are priced at, or below, local utility provider rates, Landlord may elect to deliver gas and electric utility services to Tenant directly, or through an intermediary, including Landlord holding the utility accounts, and Tenant shall reimburse Landlord for Tenant's consumption no later than thirty (30) days from receipt of demand. In the event Tenant's use of water and sewer services materially exceeds the foregoing, Landlord may separately meter the water and sewer services, at Tenant's expense, and may require Tenant to pay the service provider directly. Landlord shall have no liability to Tenant with respect to any interruptions or failures of utilities.

Notwithstanding anything contained herein to the contrary, in the event that such interruption or cessation of utilities results from Landlord's negligent or willful act or omission, and continues beyond five (5) consecutive business days from the date of such interruption or cessation, then, provided Tenant has delivered Landlord with prompt notice of such interruption, the rent under this Lease will abate, commencing on the sixth (6th) consecutive business day the Premises remain untenable, and continuing until the date on which the utilities are restored and the Premises are again tenantable. No abatement of rentals as hereinabove described will apply in the event such interruption of utilities is the result of Tenant's alterations to the Premises, or any negligent act or omission of Tenant, its agents, employees or contractors, or any cause other than the negligent or willful act or omission of Landlord or its employees, agents or contractors.

8. Taxes. Subject to reimbursement as provided below, Landlord shall pay all taxes (including the Texas Margins Tax), assessments, governmental charges, fees or payments to a governmental authority in lieu of taxes, and fees payable to tax consultants and attorneys for consultation and contesting taxes that accrue during the Lease Term against the tax parcel on which the Premises is located (collectively, "Taxes"). In addition, Taxes shall include all capital levies, or other taxes assessed upon the rent payable to Landlord under this Lease, and any franchise tax, excise, use, margin, transaction, sales or privilege tax, assessment, levy or charge measured by or based upon such rent, or the value of the Premises and/or the Project Areas; provided, however, in no event shall Tenant be liable for any income taxes imposed on Landlord unless such income taxes are in substitution for any Taxes. If any tax is levied or assessed directly against Tenant, or results from any Tenant-Made Alterations (defined below), property, contents, or fixtures placed in the Premises by Tenant, then Tenant shall pay such tax directly to the taxing authority, even if levied or assessed against Landlord.

Along with each payment of Monthly Base Rent under this Lease, Tenant shall pay Landlord one-twelfth (1/12) of Tenant's Proportionate Share of Taxes as estimated by Landlord from time to time. Tenant shall be responsible only for Tenant's Proportionate Share of actual Taxes in any calendar year; and any difference between Tenant's estimated payments and Tennant's Proportionate Share of actual Taxes will be reconciled annually by either:
(a) Tenant paying Landlord, or (b)

Landlord paying Tenant, such amounts to true-up the differences, each within thirty (30) days after such determination. Tenant's Proportionate Share may be as adjusted by Landlord for future changes in the physical size of the Premises, Building, or Project. The Monthly Taxes is an estimate only, actual Taxes may vary.

9. Insurance. During the Lease Term, Landlord, at its cost and expense but subject to such cost and expenses being included within the Monthly FOE, shall maintain all risk property insurance covering the replacement of the Building and commercial general liability insurance on the Project. Landlord's insurance may be included in a blanket policy or captive insurance program. Tenant will not use the Premises in any manner that would void Landlord's insurance.

During the Lease Term, Tenant shall maintain the following insurance policies at Tenant's expense and without limiting Tenant's liability under this Lease: (a) commercial general liability, on an occurrence basis, having a minimum limit of \$2,000,000 per occurrence naming Landlord, Prologis, Inc., and its property manager as additional insureds; (b) all-risk property covering the full replacement cost of all property and improvements placed in the Premises by, or on behalf of, Tenant; (c) workers' compensation as required by the applicable state statute which shall include a waiver of subrogation in favor of Landlord Parties; (d) employers liability of not less than \$1,000,000, and (v) business automobile liability having a combined single limit of not less than \$2,000,000 per occurrence insuring Tenant against liability arising out of the ownership, maintenance, or use of any owned, hired or non-owned vehicles. Tenant's insurance shall provide primary and non-contributory coverage to Landlord Parties with respect to Tenant's indemnity obligations under this Lease. Tenant's insurance requirements may be satisfied by a combination of primary and excess policy limits or an umbrella policy. Tenant shall provide Landlord with certificates of such insurance prior to Tenant taking possession of the Premises, and thereafter prior to the expiration of the insurance coverage, or 30 days following Tenant's receipt of Landlord's request.

The all-risk property insurance obtained by Landlord and Tenant shall include a waiver of subrogation in connection with any insured loss by the insurers and all rights based upon an assignment from its insured, against Landlord, or its agents, employees, contractors, or property manager (collectively the "**Landlord Parties**"), or Tenant, its agents, employees, contractors, subtenants, assigns, or invitees (collectively the "**Tenant Parties**"). No Landlord Parties or Tenant Parties shall be liable to any other, for any loss coverable by all risk property insurance, and each party waives claims against the Landlord Parties and Tenant Parties (as applicable) for such loss, except to the extent resulting from the gross negligence or willful misconduct of Landlord or Tenant, as applicable, or their respective agents, representatives, employees, contractors or consultants. Notwithstanding anything contained herein to the contrary, Tenant shall be responsible for all contents, owned or unowned, places in the Premises by, or on behalf of, Tenant. The failure of either party to insure its property shall not void this waiver. The Landlord Parties and Tenant Parties waive any claims against the other for business interruption loss from any cause whatsoever, including damage caused in whole or in part, directly or indirectly, by the negligent acts of the other party. Notwithstanding the foregoing, with respect to any damage to the Project caused by Tenant Parties, Tenant shall pay Landlord's all-risk property insurance deductible, not to exceed \$25,000 per occurrence, within thirty (30) days following demand.

10. Landlord's Repairs and Maintenance. Landlord shall, at its cost and expense but subject to such cost and expenses being included within the Monthly FOE, maintain, repair, and replace as reasonably necessary to keep in good working order the following elements of the Project which serve the Building: (a) structural elements of the Building, (b) roof (including roof membrane and replacement or resealing, as reasonably necessary in light of age and condition), (c) exterior walls (including painting as reasonably necessary and consistent with industry practices, structural soundness and any necessary surface repairs), (d) parking areas (including snow removal to the extent consistent with market practice), driveways, landscaping, (e) exterior lighting, (f) Building fire sprinkler system, (g) plumbing, water and sewer lines (excluding any Tenant specialized plumbing), (h) water heater, (i) restroom and breakroom fixtures existing as of the Commencement Date, (j) office area ceiling tiles, (k) windows, (l) demising wall, (m) ventilation, and air conditioning units serving the office area of the Premises (the "**Office HVAC**"), (n) exterior louvers and ventilation fans for standard warehouse air changes, heating and evaporative cooler systems serving the warehouse area of the Premises (the "**Warehouse Systems**"), (o) load bearing interior walls, (p) structural slab (except for caulking of the floor and damage caused by Tenant) and foundation, (q) the below slab water and sewer lines, and all building systems owned or controlled by Landlord and not exclusively serving the Premises (for any period where Tenant is occupying less than the entire Building), each excluding reasonable wear and tear, and damages caused by Tenant Parties which are not coverable by insurance. Landlord shall also complete a bi-annual preventative maintenance service of all dock doors, dock levelers, and dock bumpers. Landlord's obligations for repair and replacements under this Lease shall expressly exclude any damage resulting from the misuse or damage by Tenant Parties, and, subject to Sections 9 and 15, Tenant shall reimburse Landlord no later than thirty (30) days from demand the cost of any repair or replacement resulting from damage or misuse by Tenant Parties. In addition, Landlord, at Landlord's expense, shall provide snow removal, slurry, restriping and sweeping of the parking lot and paved areas of the Project in a manner consistent with owners of similar buildings and projects in the market where the Building is located (but in all events Landlord shall reslurry and restripe the parking lot and paved areas of the Premises not less frequently than once every three (3) years), annual backflow testing and repairs and exterior window cleaning. Tenant shall promptly give Landlord written

notice of any repair required by Landlord. Landlord shall use commercially reasonable efforts to minimize interference with Tenant's business operations in the performance of any work required to be performed under this Section 11, including, without limitation, coordinating the scheduling of such work with Tenant. If Landlord fails to commence and diligently proceed to completion its maintenance obligations hereunder constituting a Landlord Default (as defined in Section 24), then Tenant may use its remedies as set forth in Section 24 hereunder in resolution of the same.

11. Tenant's Repairs. Subject to Landlord's obligations in Section 10, and subject to Sections 9 and 15 and ordinary use, wear and tear excepted, Tenant, at its expense, shall maintain, repair, and replace to the same working order all areas, improvements and systems exclusively serving the Premises including non-structural floor slab, doors, and Tenant HVAC and related components as such was delivered to Tenant and Tenant shall have no obligation to improve the Premises above and beyond the "as is" condition. "**Tenant HVAC**" means HVAC systems installed by Tenant, specialty HVAC equipment (including IT room HVAC), and warehouse air conditioning systems (other than the Warehouse Systems) including temperature-controlled product systems. In addition, Tenant, at Tenant's expense, shall repair and replace in good working order the dock doors, dock levelers, and dock bumpers serving the Premises, ordinary use, wear and tear excepted from the condition as of the Commencement Date. If Tenant fails to begin to perform any Tenant maintenance, repair, or replacement required under this Lease within 30 days from demand (and thereafter diligently and in good faith perform such item to completion), Landlord may perform such work and Tenant shall reimburse Landlord for such costs within 30 days after demand along with a 5% administrative fee.

12. Tenant-Made Alterations and Trade Fixtures. Tenant shall have the right to make alterations, additions, or improvements to the Premises ("**Tenant-Made Alterations**"), which are interior, do not impact the structure of the Building, and the cost of which does not exceed \$25,000 in each instance, without Landlord's consent; provided Tenant provides Landlord with a written notice of such Tenant-Made Alterations containing sufficient and complete information regarding such Tenant-Made Alterations. All other Tenant-Made Alterations shall require Landlord's prior written consent, and approval of the plans, not to be unreasonably withheld, delayed or conditioned provided such alteration does not impact the structure of the Building, modify the exterior of the Building, or modify the utility or mechanical systems of the Project. Upon Tenant's request, Landlord shall at the time of consent for such Tenant-Made Alterations inform Tenant whether Landlord agrees that such Tenant-Made Alterations shall not be required to be removed upon surrender or expiration of the Lease. Tenant shall be responsible to ensure that all Tenant-Made Alterations comply with Legal Requirements and are constructed in a good and workmanlike manner by reputable contractors. Tenant shall provide Landlord with the names of all contractors performing work or supplying materials prior to beginning construction, and Landlord may post notices of non-responsibility at the Premises. Tenant shall cause its contractor completing Tenant-Made Alterations to provide certificates of insurance for worker's compensation, including a waiver of subrogation in favor of Landlord Parties, and commercial general liability in an amount equal to \$2,000,000, including a provision of additional insured status for Landlord Parties. Upon completion of any Tenant-Made Alterations, Tenant shall deliver to Landlord final lien waivers from all contractors and subcontractors which provided services for the Tenant-Made Alterations. Upon surrender of the Premises, Tenant shall remove only Tenant-Made Alterations and any improvements constructed by Tenant, that Landlord has not otherwise provided consent for such to remain in place. Should Tenant be required remove any Tenant-Made Alterations, Tenant shall repair any damage resulting from such removal. Upon Tenant's written request, Landlord shall provide Tenant a list of Tenant-Made Alterations Landlord will shall allow to remain upon the Expiration Date.

Without Landlord's approval, Tenant may erect shelves, racking, machinery and trade fixtures in the Premises (collectively "**Trade Fixtures**"), provided such items: (a) do not overload the slab, (b) may be removed without damaging the slab or the Premises, and (c) comply with all Legal Requirements. Upon Lease termination, Tenant, at its expense, shall remove its Trade Fixtures and repair any damage to the Premises caused from such removal.

13. Signs. Tenant must obtain Landlord's written consent for any exterior signage. Upon the Lease termination, Tenant, at its expense, shall remove all such signage and repair, paint, and/or replace any damaged building facia surfaces. Tenant, at its expense, shall comply with all Legal Requirements pertaining to such items. Notwithstanding the foregoing, Tenant shall have the right to install signage on the exterior wall of the Building at its sole cost and expense and subject to Landlord's approval of the design, size and location of such signage and provided such signage is in accordance with Legal Requirements which approval shall not be unreasonably withheld, conditioned or delayed.

14. Parking. Tenant may park operable vehicles in areas of the Project designated for non-reserved parking and may park operable vehicles and trailers overnight at the docks and designated truck and trailer parking areas for the Premises. Tenant shall not park vehicles or trailers in a manner that causes interference with the access to the parking lots and truck courts at the Project. Landlord may allocate parking spaces among Tenant and other tenants if Landlord reasonably determines such allocation is beneficial to the Project. Landlord shall not be responsible for enforcing Tenant's parking rights against any third parties.

15. Restoration. If at any time during the Lease Term the Premises is damaged by fire or other casualty event (the "**Casualty Damage**"), within 45 days after such event, Landlord shall notify Tenant of its reasonable estimate for restoration time (the "**Restoration Notice**"). If the restoration time is estimated to exceed 4 months from the date of such casualty, either Landlord or Tenant may elect to terminate this Lease upon delivery of written notice to the other party no later than 30 days after delivery of the Restoration Notice. If neither party elects to terminate this Lease, or if Landlord estimates that restoration will take less than 4 months from the date of such casualty, then Landlord shall, subject to receipt of insurance proceeds, restore the Premises, excluding any Tenant-Made Alterations and Trade Fixtures. Notwithstanding the foregoing, either party may terminate this Lease if the Casualty Damage occurred during the last year of the Lease Term and Landlord reasonably estimates that it will take more than one month to repair such damage. Commencing on the date of the Casualty Damage, Monthly Base Rent, Monthly Taxes, and the Monthly FOE shall be abated from the date of Casualty Damage through the period of repair and restoration in the proportion of the Premises, if any, which is not usable by Tenant. Notwithstanding the terms and conditions of this Section, if the Premises are not restored by Landlord on, or prior to, the date which is the later of 6 months of the date of the casualty event (subject to Force Majeure and Tenant-caused delays) or the date Landlord estimated completion of the restoration as described above (subject to Force Majeure and Tenant-caused delays), Tenant may terminate the Lease upon thirty (30) days written notice to Landlord; provided, however, if Landlord completes the restoration in said thirty (30) day notice period, Tenant's notice of termination shall be null and void and this Lease shall continue in full force and effect.

16. Condemnation. If the Premises or any part thereof is permanently taken by right of eminent domain, or by a purchase in lieu thereof (each a "**Taking**" or "**Taken**"), then upon written notice by Landlord this Lease shall terminate and Monthly Base Rent, Monthly FOE, and Monthly Taxes shall be apportioned as of the date of the Taking. In the event (i) more than twelve percent (12%) of the Premises is involved in a Taking as described in this Section 16, or (ii) more than twelve percent (12%) of the parking spaces for the Building are Taken and not replaced by Landlord with other parking spaces in the Project proximate to the Building, and in either case the Taking, in Tenant's reasonable judgment, would materially interfere with or impair Tenant's operations at the Premises, then in any such event Tenant shall have the right to terminate this Lease by giving written notice of termination to Landlord within thirty (30) days of such Taking. If part of the Premises is Taken, then this Lease shall be terminated with respect to the portion so Taken and Base Rent and Monthly FOE shall be proportionately reduced. In the event of a Taking, Landlord shall be entitled to receive the entire purchase price or award from a Taking, and Tenant shall assign to Landlord Tenant's interest, if any, in such purchase price or award. Without diminishing Landlord's purchase price or award, Tenant shall have the right to make a separate claim against the Taking authority (but not Landlord) for such compensation as may be separately awarded or recoverable by Tenant.

17. Assignment and Subletting. Tenant shall not assign this Lease, sublease the Premises, or mortgage or pledge its leasehold interest in this Lease without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed, except as provided below, and any attempt to assign the Lease otherwise shall be an immediate Event of Default. In determining whether to grant its consent which shall not be unreasonably withheld, conditioned or delayed, Landlord may consider whether the intended use of the Premises would adversely impact the use or operations of other tenants at the Project or impair Landlord's ability to lease other space in Project. Tenant shall provide Landlord the proposed assignee or sublessee's name, a description of its business, its financial information, and such other information as Landlord may reasonably request. Any approved assignment or sublease shall be expressly subject to: (a) the terms and conditions of this Lease, and (b) revocable if there is an uncured Event of Default, either at the time of notice or as of the effective date of the assignment or sublease. In an Event of Default, Landlord may collect rent from any occupant of the Premises apply the amount collected to the next due installment of rent under this Lease. Notwithstanding the foregoing to the contrary, provided no uncured default has occurred under this Lease, and subject to the provisions herein, Tenant may, without Landlord's prior written consent, assign this Lease to any entity into which Tenant is merged or consolidated, or to any entity to which substantially all of Tenant's assets are transferred, provided the following conditions are met: (x) such merger, consolidation, or transfer of assets is not principally for the purpose of transferring Tenant's leasehold estate, (y) such merger, consolidation, or transfer of assets does not adversely affect the legal existence of the Tenant hereunder, and (z) such merger, consolidation, or transfer of assets of Tenant does not reduce the tangible net worth of Tenant after giving effect to such transfer ("Permitted Transfer"). Tenant hereby agrees to give Landlord written notice thirty (30) days prior to such merger, consolidation, or transfer of assets along with any documentation reasonably requested by Landlord related to the required conditions as provided above. For purposes of this Section, a transfer of the ownership interests controlling Tenant shall be deemed an assignment of this Lease unless the interests are publicly traded. Notwithstanding the above, without Landlord's consent, but with prior written notice to Landlord, Tenant may assign this Lease, or sublet the Premises to any entity controlling Tenant, controlled by Tenant or under common control with Tenant (a "**Tenant Affiliate**"). This Lease shall be binding upon Tenant's successors and assigns. Upon Landlord's receipt of Tenant's written notice of a desire to assign this Lease, or sublet the Premises (other than to a Tenant Affiliate), Landlord may terminate this Lease with respect to the area of the Premise described in Tenant's notice by giving written notice to Tenant within 30 days of Landlord's receipt of such request. Tenant may withdraw its notice to sublease or assign by notifying Landlord within 10 days after Landlord has given Tenant notice of such termination, in which case the Lease shall not terminate but shall continue.

Notwithstanding any assignment or subletting (or any Landlord consent thereto), Tenant and any guarantor of Tenant's obligations shall remain liable for all of Tenant's obligations under this Lease. In the event that the Base Rent due by a sublessee exceeds the Monthly Base Rent payable under this Lease, then Tenant shall pay to Landlord 50% of such excess net of any costs, concessions, abatements or other requirements resulting from the sublease of the Premises (such as brokerage fees and/or leasing commissions incurred, costs of removing and storing property or changing the Premises to accommodate the sublessee) within 30 days following receipt.

18. Indemnification. Tenant agrees to indemnify, defend, and hold harmless, Landlord Parties from and against all incurred losses, liabilities, damages, costs and expenses (including reasonable attorneys' fees) resulting from third party claims for personal injuries, or damage, theft, or loss of property occurring at the Project which arises from: (a) the use and occupancy of the Premises by Tenant Parties, or (b) any other act or omission of Tenant Parties, except for the negligence or willful misconduct of Landlord Parties. The furnishing of insurance required hereunder shall not be deemed to limit Tenant's obligations under this Section.

19. Inspection, Data, and Access. Landlord and its agents, representatives, lenders, investors, prospective buyers, consultants, and contractors may enter the Premises at reasonable times to inspect the Premises for any reasonable business purpose, and during the last year of the Lease Term, to show the Premises to prospective tenants; provided that, Tenant shall have the right, but not the obligation, to have a representative present at any such entry into the Premises. Landlord will use commercially reasonable efforts not to interfere with Tenant's use of, access to or occupancy of the Premises, and Landlord shall not enter the Premises for the purposes stated in this Section without providing reasonable prior telephonic and electronic mail notice to the e-mail address of Tenant's General Manager of the Premises that Tenant provides to Landlord (not less than two business days in advance of such entry, except in the event of an emergency and repair, in which event Landlord shall provide as much prior notice as is possible) at reasonable times during normal business hours. Landlord may grant easements, make public dedications, designate or modify common areas, and create restrictions affecting the Project (collectively, "**Encumbrances**"), provided that Encumbrances do not materially interfere with Tenant's access, authorized use or occupancy of the Premises or increase Tenant's obligations or reduce Tenant's rights hereunder. Tenant agrees to execute any reasonable instruments as may be necessary for such Encumbrances.

20. Quiet Enjoyment. Absent any uncured Event of Default, Tenant shall have peaceful and quiet enjoyment of the Premises against any person claiming by, through or under Landlord.

21. Surrender. Upon the Lease termination, or the termination of Tenant's possession of the Premises, Tenant shall surrender the Premises to Landlord in the same condition as received, ordinary wear and tear, casualty loss and condemnation excepted, and remove all Trade Fixtures, Tenant-Made Alterations and property, unless otherwise agreed in writing by Landlord. Tenant shall remove, or cut below the slab surface, all racking bolts, and repair cracks, spalling, and racking bolt damage with mm-80 (or equivalent) epoxy or polymer to match concrete color and finished smooth with slab surface. All floor striping (including paint or tape) shall be removed with no residual staining or other indication that such striping or taping existed. Any such items not removed shall be deemed abandoned. In the event Tenant fails to comply with either (a) or (b) above, Landlord may complete such work, and Tenant shall reimburse Landlord for the costs incurred thereof no later than thirty (30) days following receipt of demand. Any outstanding Tenant obligations under this Lease shall survive the termination of the Lease Term.

22. Holding Over. Possession of the Premises by Tenant after the termination of this Lease, shall be subject to immediate termination by Landlord, and all terms of this Lease shall be applicable during such holdover period except (a) any expansion, renewal, or similar option shall be null and void, and (b) Monthly Base Rent for the holdover period shall be 150% of the Monthly Base Rent in effect immediately prior to the holdover period. In addition, if Tenant continues to holdover after receipt of notice from the Landlord providing thirty (30) days' prior written notice (including prior to the expiry of the Lease) that Landlord has another tenant under contract to lease the Premises, Tenant shall be liable for all damages incurred by Landlord as a result of the holdover. Holdover shall not extend the Lease Term, and this Section shall not be construed as consent for Tenant to retain possession of the Premises. For purposes of this Section, "possession of the Premises" shall continue until Landlord has legal control over the Premises, all keys have been delivered, and Tenant has surrendered the Premises with all personal property of Tenant removed.

23. Events of Default. Each of the following shall be an event of default ("**Event of Default**") by Tenant:

- a) Tenant shall fail to pay any installment of Base Rent, Taxes, Monthly Fixed Operating Expenses, or any other payment required herein when due, and such failure shall continue for a period of 5 business days after written notice from Landlord is given to Tenant in accordance with the provisions of this Lease that such payment was due;

provided, however, that Landlord shall not be obligated to provide written notice of such failure more than 2 times in any 12-month period.

- b)** Tenant or any guarantor: (i) makes an assignment for the benefit of creditors; (ii) commences any action to have an order for relief entered on its behalf as a debtor, or to adjudicate it as bankrupt, or insolvent, or seek reorganization, liquidation, or dissolution of it, or its debts, or seek an appointment of a receiver, trustee, custodian or similar official for it, or its property (collectively a "Proceeding for Relief"); (iii) becomes subject to an involuntary Proceeding for Relief which is not dismissed within 60 days of filing; or (iv) is dissolved or otherwise fails to maintain its legal existence.
- c)** Failure to maintain any insurance required by this Lease, or to timely deliver any certificate of insurance after five (5) business days' notice from Landlord of such failure to deliver such certificate (provided that no lapse of coverage shall be permitted to occur).
- d)** Failure to comply with any other provision of this Lease for more than 30 days after Landlord has given Tenant written notice, except as otherwise provided in this Lease (said notice being in lieu of, and not in addition to, any notice required as a prerequisite to a forcible entry, detainer or similar action for possession of the Premises); provided that in the event such matter cannot be cured within such 30 day period, Tenant shall have such additional time as is reasonably necessary to cure the same provided that Tenant commences to cure within such 30-day period and thereafter diligently prosecutes the same to completion.
- e)** The occurrence of any Event of Default otherwise specifically set forth in this Lease.

24. Landlord's Remedies. For so long as any Event of Default continues (provided that no Event of Default shall occur until the expiration of any applicable cure period set forth in Section 23, above), Landlord may at any time elect to: (a) terminate this Lease, (b) terminate Tenant's right of possession of the Premises (but Tenant shall remain liable as hereinafter provided), and/or (c) pursue any other remedies at law or in equity. Upon the termination of this Lease, or termination of Tenant's right of possession, Landlord may, without formal demand or notice except as required by Legal Requirements, re-enter the Premises by any action or proceeding authorized by law, and remove Tenant, and all persons and property therefrom. If Landlord re-enters the Premises, Landlord shall have the right to keep in place, or remove and store, all property at the Premises at Tenant's expense. The term "immediate Event of Default" as issued in this Lease shall mean Tenant has no cure period, and Landlord may immediately pursue all of its remedies.

If Landlord terminates this Lease for an Event of Default as provided in this Section 24, Landlord may recover from Tenant the sum of: (a) all Monthly Base Rent, Monthly Taxes, Monthly FOE, and all other amounts payable by Tenant which have accrued as of the date of termination; (b) the value of the Monthly Base Rent for any periods of abated Monthly Base Rent; (c) the reasonable cost of reletting the Premises, including the unamortized reasonable and customary brokerage fees and/or leasing commissions incurred by Landlord, costs of removing and storing property, repairing or altering the Premises back to the same condition as of the Commencement Date under this Lease with normal wear and tear excepted; (d) all reasonable expenses incurred by Landlord in pursuing its remedies, including reasonable attorneys' fees and court costs; and (e) the excess of the then present value of the Monthly Base Rent, Monthly Taxes, Monthly FOE, and other amounts payable by Tenant under this Lease applicable to the period following the termination of this Lease through the Expiration Date, over the present value of any amounts which Tenant establishes Landlord can reasonably expect to recover by reletting the Premises during such period, taking into consideration the availability of acceptable tenants consistent with Landlord's leasing criteria and other market conditions. Such present values shall be calculated at a discount rate equal to the 90-day U.S. Treasury bill rate at the date of the termination. To the extent the Landlord relets the Premises for any of the unexpired Term of the Lease through the Expiration Date, Landlord shall reduce the sums due from Tenant under this paragraph by the amounts received from reletting the Premises.

If Landlord terminates Tenant's right to possession (but not this Lease) without terminating the Lease after an Event of Default as provided in this Section 24, Landlord shall use commercially reasonable efforts to relet the Premises without thereby releasing Tenant from any liability hereunder and without demand ; provided, however, (a) Landlord shall diligently seek an alternative tenant, (b) Landlord shall, in good faith, accept any tenant proposed by Tenant whose intended use of the Premises is generally consistent with the Use set forth in Section 4 hereof, (c) Landlord shall have the right to lease any other space controlled by Landlord first with respect to any prospective tenant other than one proposed by Tenant. Landlord shall have the right to make repairs, changes, alterations, or additions to the Premises to return the Premises back to the same condition as of the Commencement Date under this Lease, with normal wear and tear excepted. If the Premises is not relet, then Tenant shall pay to Landlord, as damages, a sum equal to: (1) the Monthly Base Rent, Monthly FOE, and Monthly Taxes payable by Tenant for such period that the Premises has not been relet, plus the reasonable cost incurred to recover

possession of the Premises (including reasonable attorneys' fees and court costs); (2) any Monthly Base Rent, Monthly Taxes, Monthly FOE, and other amounts accrued and unpaid at the time of repossession; and (3) the reasonable costs incurred by Landlord's efforts to relet the Premises. If the Premises is relet, and the total rent and reasonable expenses payable by such replacement tenant (after first deducting any unpaid amounts payable by Tenant which accrued under this Lease, the reasonable cost of recovering possession of the Premises, the reasonable costs of repairs and alterations to the Premises completed by Landlord on Tenant's behalf, and leasing commissions) is not sufficient to satisfy the total rent and expenses payable by Tenant under this Lease, then Tenant shall within thirty (30) days after Tenant's receipt of written demand pay any such deficiency to Landlord. Notwithstanding any reletting without termination, Landlord may elect to terminate this Lease for a previous Event of Default at any time upon written notice. To the extent the Landlord relets the Premises for any of the remaining Term of the Lease through the Expiration Date or termination date, Landlord shall reduce the sums due from Tenant under this paragraph by the amounts received from reletting the Premises

Landlord's exercise of any remedies shall not be deemed an acceptance of surrender of the Premises and/or a termination of this Lease, other than Landlord's election to terminate the Lease. A party's failure to enforce its rights under this Lease strictly in accordance the terms hereof shall not modify this Lease or create a custom contrary to the specific provisions of this Lease. Tenant and Landlord further agree that forbearance or waiver by a party to enforce its rights pursuant to this Lease, or at law or in equity, shall not waive its rights or remedies in connection with any subsequent Event of Default or breach. No waiver by Landlord of any Lease provision shall be effective unless in writing and signed by Landlord, even if Landlord accepts Tenant's payments with knowledge of Tenant's breach of the Lease. In the event Landlord exercises self-help, or lock-out, remedies as provided by law Tenant waives all claims against Landlord for business loss, business interruption, or any other damages resulting from Landlord's self-help or lock-out. The terms "enter," "re-enter," "entry" or "re-entry," as used in this Lease, are not restricted to their technical legal meanings.

25. Tenant's Remedies/Limitation of Liability. Landlord shall be in default of this Lease if Landlord fails to perform any of its obligations under this Lease within 30 days after written notice from Tenant specifying such failure (unless performance will, due to the nature of the obligation or circumstances, require more than 30 days, then after a period of time reasonably necessary to cure such default (a "Landlord Default"), Tenant may pursue any and all legal and equitable remedies at law which it is entitled without waiver of the same.

In the event of a Landlord Default or an emergency (being defined as an imminent threat of personal injury to Tenant's employees or material damage to Tenant's equipment or other property at the Premises), Tenant shall have the right to take such action as is reasonable and necessary to (a) perform such repair or maintenance or other obligation of Landlord to cure such Landlord Default, and (b) make such temporary, emergency repairs to the plumbing, ventilation, and HVAC for the Premises, the roof, foundation, floors and exterior walls of the building of which the Premises are a part, or the roof membrane, skylights, roof vents, drains and downspouts of the Project, and the exterior and under slab utility systems for the Project, to prevent (i) such material damage to the equipment or property of Tenant situated in the Premises, (ii) such personal injury to Tenant's employees and (iii) disruption or interruption to Tenant's operations and business, provided Tenant has no reasonable alternative and has notified or attempted in good faith to notify Landlord's representative of such emergency by telephone (with subsequent written notice as soon as practicable). The provisions of this paragraph do not constitute an authorization by Landlord for Tenant to enter the premises of any other tenant of the Project, and Tenant has not been designated as Landlord's agent for the purposes of any such entry. Landlord shall reimburse Tenant for the reasonable costs incurred (with weight given to the nature and extent of the emergency and passage of time) by Tenant in making such emergency repairs to the Premises, as applicable, up to (but not to exceed) \$50,000.00 with respect to each such occurrence, within thirty (30) days after submission by Tenant to Landlord of an invoice therefore, accompanied by reasonable supporting documentation for the costs so incurred.

In the event Landlord fails or refuses to cure a Landlord Default or reimburse Tenant for such costs as set forth in this Section within such thirty (30) day period and Tenant brings an action for recovery from Landlord as provided for in this Lease and this Section, then Tenant shall be entitled to recover, in addition to the amount of such costs, interest on such amounts from the date incurred by Tenant until recovered from Landlord, at the the highest rate permitted by applicable law, and the reasonable attorneys' fees and other costs of court incurred by Tenant in pursuing such action.

The term "Landlord" shall mean only the then-current owner of the Premises, and in the event of an assignment of the Lease, the assignor shall be released and discharged from all obligations of Landlord under this Lease, and such obligations shall be binding during the Lease Term upon each new assignee for the duration of such owner's ownership. Any liability of Landlord shall be limited solely to its interest in the Building, and in no event shall any personal liability or recourse to any other property or assets of Landlord be asserted against Landlord.

26. Subordination. Tenant's interest and rights under this Lease shall automatically be subject and subordinate to any lien of an existing or future mortgage or any ground lease to which the Premises is subject, and all amendments, modifications, assignments and extensions thereof. Tenant agrees, at the election and after notice of the holder of any mortgage, or lessor under any ground lease, to execute, acknowledge and deliver such instruments to confirm such subordination and attornment. Any such holder may at any time subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant. The term "mortgage" whenever used in this Lease shall be deemed to include deeds of trust, security assignments and any other encumbrances. Any reference to the "holder" of a mortgage shall be deemed to include the beneficiary under a deed of trust. Notwithstanding the preceding provisions of this Paragraph, this Lease and Tenant's interest in the Premises shall not be subordinate to any future mortgage or deed of trust on the Building, and Tenant shall not be obligated to execute an instrument subordinating this Lease or Tenant's interest in the Premises to any future mortgage or deed of trust on the Building, unless concurrently with such subordination the holder of such mortgage or deed of trust agrees in such instrument of subordination not to disturb Tenant's possession of the Premises (so long as no default exists under the Lease) in the event such holder acquires title to the Premises through foreclosure, deed in lieu of foreclosure or otherwise.

27. Mechanic's Liens. Tenant shall not allow any lien or encumbrance of any kind to be placed upon the Building as a result of services or materials provided to the Building at any Tenant Parties' request. Tenant shall save and hold Landlord harmless from all loss, cost or expense based on or arising out of claims or liens asserted against the Building as a result of the acts or omissions of Tenant Parties. Tenant shall give Landlord immediate written notice of any lien or encumbrance placed against the Building and shall use commercially reasonable efforts to cause the lien or encumbrance to be discharged, or bonded over, in a manner satisfactory to Landlord, within 20 days after Tenant's receipt of actual notice of the filing or recording thereof or such failure shall be deemed an immediate Event of Default.

28. Estoppel Certificates. Upon review and agreement as to the contents, Tenant agrees to execute and deliver to Landlord, or Landlord's designee, within 10 days after Tenant's receipt of Landlord's written request an estoppel certificate containing customary provisions. Tenant's failure to timely deliver an estoppel certificate shall constitute an Event of Default if not cured within 10 days' of notice of such continuing default.

29. Environmental Requirements. Tenant shall not allow any party to introduce, transport, store, use, generate, manufacture, or dispose of any Hazardous Material at the Project without Landlord's prior written consent except for Hazardous Materials contained in: (a) products used by Tenant in de minimis quantities for ordinary cleaning and office purposes; (b) forklift propane tanks, and (c) products stored by Tenant on behalf of its clients in the Health and Beauty industry, including without limitation perfume, fragrances, and nail polish (so long as such products are stored by Tenant in their original, sealed, and unopened containers), Tenant shall not allow any party to introduce, transport, store, use, generate, manufacture, or dispose of any Hazardous Material at the Project without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. Tenant, at its sole cost and expense, shall: (v) cause its operations at the Project to comply strictly with all Environmental Requirements, including all reporting obligations imposed by applicable Environmental Requirements in the capacity as "operator" of Tenant's "facility" and the "owner" (as such terms are used in applicable Environmental Requirements) of all Hazardous Materials brought onto the Project by Tenant Parties, and the wastes, by-products, or residues generated, resulting, or produced therefrom, or extracted from the Project; (w) following written request from Landlord, promptly inform and provide copies of any documentation relating in any way to Hazardous Materials at the Project which Tenant receives or sends; (x) promptly and diligently remediate in a manner satisfactory to Landlord's reasonable requirements, any Hazardous Materials released on, or from, the Project by Tenant Parties; (y) promptly notify Landlord in writing of any spill, release, discharge, or disposal of any Hazardous Material in, on, or under the Project; and (z) following written request from Landlord, promptly complete and deliver any disclosure or certification reasonably requested by Landlord concerning Tenant Parties' transportation, storage, use, generation, manufacture or release of Hazardous Materials in, on, or about the Project. Tenant shall be strictly liable to Landlord for Tenant Parties' transportation, storage, use, generation, manufacturing, disposal, or release of Hazardous Materials at the Project without regard to the fault or negligence of any other party. Notwithstanding any notice and cure periods provided herein, Tenant shall promptly commence and diligently pursue its remediation obligations in accordance with this Section. The term "**Environmental Requirements**" means all applicable present and future statutes, regulations, ordinances, rules, codes, judgments, orders, or other similar enactments of any governmental authority or agency regulating or relating to health, safety, or environmental conditions, including the following: the Comprehensive Environmental Response, Compensation and Liability Act; the Resource Conservation and Recovery Act; and all state and local counterparts thereto, and any regulations or policies promulgated or issued thereunder. The term "**Hazardous Materials**" means any substance, material, waste, pollutant, or contaminant regulated by any Environmental Requirements, asbestos, radioactive materials, and petroleum (including crude oil or any fraction thereof, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel or mixtures of natural gas and such synthetic gas).

Tenant shall have no liability to Landlord as to Hazardous Materials on the Project which arose prior to Tenant's initial possession of the Premises, or during the Lease Term which were caused or permitted by any party other than Tenant, or Tenant Parties, or for Tenant's disturbance of known existing Hazardous Materials.

Tenant shall indemnify, defend, and hold Landlord Parties harmless from and against any and all losses, claims, demands, actions, suits, damages, costs and expenses (including reasonable attorney fees, punitive damages, and any reduction in the value of the Project) which are brought or recoverable against, or suffered or incurred by Landlord as a result of: (a) any release of Hazardous Materials on, or from, the Project by Tenant Parties, or (b) Tenant Parties', breach of, or noncompliance with, this Section, regardless of whether Tenant had knowledge of such noncompliance. Tenant's obligations under this Section shall survive the Expiration Date or earlier termination of this Lease.

If Landlord's inspection pursuant to Section 19 reveals noncompliance by Tenant, Tenant shall promptly reimburse Landlord for the reasonable cost of such inspection and testing. Landlord's receipt of a 'clean' environmental assessment shall in no way release Tenant from its obligations under this Section or constitute a waiver by Landlord of its rights and remedies herein.

Landlord represents to Tenant that as of the Effective Date Landlord has not received any unresolved written notice of a violation of Environmental Requirements with respect to the Building.

30. Rules and Regulations. Tenant shall comply with all rules and regulations reasonably established by Landlord covering use of the Project provided that the same are not enforced in a discriminatory manner. The current rules and regulations are attached hereto as Exhibit B, which may be supplemented from time to time. Landlord shall not have any liability or obligation for the breach of any rules or regulations by other tenants in the Project.

31. Force Majeure. Neither Landlord nor Tenant shall be responsible for delays in the performance of its obligations hereunder caused by labor disputes, acts of God, pandemics, inability to obtain labor or materials, governmental restrictions or regulations or delay in issuance of permits, enemy or hostile governmental action, civil commotion, casualty, and other causes beyond the reasonable control of Landlord or Tenant, as the case may be (collectively, "**Force Majeure**"); provided Force Majeure shall not apply to monetary obligations.

32. Entire Agreement. This Lease constitutes the entire agreement of Landlord and Tenant with respect to the subject matter hereof. Any prior agreements, promises, negotiations, or representations are superseded by this Lease. This Lease may only be amended in writing signed by both parties.

33. Severability. If any clause of this Lease is deemed to be illegal, invalid or unenforceable under present or future laws, then it is the intention of the parties that such clause be replaced with a valid clause of similar meaning and that the remainder of this Lease shall not be affected.

34. Brokers. Each party represents and warrants to the other that it has not dealt with any broker or agent in connection with this transaction, other than Landlord Broker and Tenant Broker, if any, set forth in Section 1 of this Lease. Each party agrees to defend, indemnify and hold the other harmless from and against any claims by any other broker or agent claiming a commission or other form of compensation by virtue of having dealt with the indemnifying party with regard to this Lease.

35. Miscellaneous.

- a) TIME IS OF THE ESSENCE as to the performance of Tenant's and Landlord's obligations under this Lease.
- b) Any payments or charges due from Tenant to Landlord shall be considered additional rent for all purposes of this Lease.
- c) All Lease notices shall be in writing and sent to the applicable party as set forth in Section 1 by registered or certified mail, return receipt requested, or by a reputable national overnight courier service, postage prepaid, or hand delivery. Either party may, upon written notice, change its notice address(es). Notice shall be deemed given upon delivery or refusal of delivery except where otherwise provided herein.
- d) Where approval or consent is required of either Landlord or Tenant, such approval or consent shall not be unreasonably withheld, conditioned or delayed except as otherwise provided herein, or as otherwise required by law.
- e) At Landlord's request, Tenant shall furnish Landlord with true and complete copies of its most recent financial statements, unless publicly available.
- f) Neither this Lease, nor a memorandum of lease, shall be recorded by Tenant.

- g) The laws of the state in which the Project is located shall govern the construction and interpretation of this Lease, without regards to any principles of conflicts of laws. The rule of construction that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Lease or any exhibits or amendments to this Lease.
- h) Landlord's submission of this Lease shall not constitute an option to lease the Premises, nor be binding or confer any right or impose any obligations upon either party until execution and delivery of this Lease by both parties.
- i) The captions inserted in this Lease are for convenience only and in no way define, limit or otherwise describe the scope, intent, or any provision of this Lease, or in any way affect the interpretation of this Lease.
- j) All exhibits and addenda attached hereto are incorporated into, and made a part of, this Lease. In the event of any conflict between such exhibits or addenda and the terms of this Lease, such exhibits or addenda shall control.
- k) Any amount not paid by Tenant within 5 days after the due date as provided in Section 23 and any applicable cure period, shall bear interest from such due date until paid in full at the lesser of the highest rate permitted by applicable law or 8 percent per year.
- l) In the event either party initiates litigation to enforce the terms and provisions of this Lease, the non-prevailing party shall reimburse the prevailing party for its reasonable attorney's fees, filing fees, and court costs. The phrase "prevailing party" includes a party who substantially receives the relief desired whether by dismissal, summary judgment, or otherwise.
- m) Landlord shall have the right, without Tenant's consent, to place an energy technology installation, such as a solar system, on the roof of the Building, or otherwise at the Project, or to enter into a lease allowing a third party the right to do so; provided the energy technology system does not adversely impact Tenant's use and occupancy of the Premises, or subject Tenant to any additional costs or expenses or other material obligations. Tenant waives all rights to any environmental attributes or incentives resulting from an energy technology installation, other than a corresponding reduction in cost and expenses for utilities under the Lease. Tenant hereby waives all rights to, and agrees and acknowledges that Landlord shall retain the exclusive right to the use of the exterior of the Building and Project for any signage purposes, virtual or otherwise except as provided otherwise in this Lease. Landlord may request, and Tenant shall deliver to Landlord, data regarding Tenant's utility usage at the Premises as required by law or to provide, maintain, improve, and keep in good working order the Project. Tenant can satisfy this requirement by either: (a) providing written consent for Landlord to obtain the information directly from the utility company, or (b) providing the data to Landlord in an electronic format.
- n) This Lease may be executed in multiple counterparts, each of which shall be considered an original, but all of which shall constitute one and the same agreement. The signature of a party transmitted electronically (e.g., e-signature) or by facsimile, PDF and/or other electronic image file format shall constitute and have the same force and effect as the original signature of the party. Following execution, a PDF (or similar image file format) of this entire agreement (whether signed electronically or in ink) shall be considered to be the original agreement for all purposes.
- o) The term "days" shall mean calendar days unless otherwise specified, and the term "including" shall mean 'including, but not limited to'.
- p) Landlord and Tenant each represents to the other that:
 - (i) neither it, nor any person or entity that directly owns a 10% or greater equity interest in it nor any of its officers, directors or managing members is a person or entity with whom U.S. persons or entities are restricted from doing business under regulations of the Office of Foreign Asset Control ("OFAC") of the Department of the Treasury, including those parties names on the OFAC's Specially Designated and Blocked Persons List and those covered pursuant to Executive Order 13224 signed on September 23, 2001, entitled "Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action; and
 - (ii) its activities do not violate the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or USA Patriot Act, or the regulations or orders promulgated thereunder (as amended from time to time).

36. Waiver Of Jury Trial. TENANT AND LANDLORD WAIVE ANY RIGHT TO TRIAL BY JURY OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (IN CONTRACT, TORT, OR OTHERWISE), BETWEEN LANDLORD AND TENANT ARISING OUT OF THIS LEASE OR ANY OTHER INSTRUMENT, DOCUMENT, OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HERewith OR THE TRANSACTIONS RELATED HERETO.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the Effective Date.

TENANT:

Priority Fulfillment Services, Inc.
a Delaware corporation

By: /s/ Zach Thomann

Name: Zach Thomann

Title: Executive VP and General Manager, PFS

LANDLORD:

PROLOGIS TEXAS II (2) LLC
a Delaware limited liability company

By: Authorized Person

By: /s/ Mitch Pruitt

Name: Mitch Pruitt

Title: VP-Leasing of Prologis, Inc., a Maryland corporation

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE
OFFICER PURSUANT TO 18 U.S.C. SECTION 1350**

I, Michael Willoughby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

By: /s/ Michael Willoughby
Chief Executive Officer

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE
OFFICER PURSUANT TO 18 U.S.C. SECTION 1350**

I, Tom Madden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2020

By: /s/ Thomas J. Madden
Chief Financial Officer

CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of PFSweb, Inc. (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the period ended September 30, 2020 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

November 6, 2020

/s/ Michael Willoughby

Michael Willoughby
Chief Executive Officer

November 6, 2020

/s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to PFSweb, Inc. and will be retained by PFSweb, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.