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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2019

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	**75-2837058**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
505 Millennium Drive, Allen, Texas	**75013**
(Address of principal executive offices)	**(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 x No ☐

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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	☐	Accelerated filer	x
Non-accelerated filer	☐	Smaller Reporting Company	x
Emerging growth company	☐		

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 x

As of November 7, 2019, there were 19,432,410 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, 2019	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,511	$ 15,419
Restricted cash	207	207
Accounts receivable, net of allowance for doubtful accounts of $917 and $585 at September 30, 2019 and December 31, 2018, respectively	50,613	72,415
Inventories, net of reserves of $291 and $298 at September 30, 2019 and December 31, 2018, respectively	4,061	6,090
Other receivables	3,018	4,014
Prepaid expenses and other current assets	5,678	6,943
Total current assets	77,088	105,088
PROPERTY AND EQUIPMENT:		
Cost	101,742	97,744
Less: accumulated depreciation	(82,276)	(76,248)
	19,466	21,496
OPERATING LEASE RIGHT-OF-USE ASSETS	36,340	—
IDENTIFIABLE INTANGIBLES, net	1,301	1,803
GOODWILL	44,936	45,185
OTHER ASSETS	3,829	3,501
Total assets	$ 182,960	$ 177,073
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$ 32,992	$ 47,580
Accrued expenses	18,004	24,623
Current portion of operating lease liabilities	8,457	—
Current portion of long-term debt and finance lease obligations	3,002	2,610
Deferred revenues	4,287	7,328
Total current liabilities	66,742	82,141
LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current portion	33,811	39,348
DEFERRED REVENUES, less current portion	1,532	1,927
DEFERRED RENT	—	4,625
OPERATING LEASE LIABILITIES	33,581	—
OTHER LIABILITIES	2,929	2,449
Total liabilities	138,595	130,490
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; 19,465,877 and 19,294,296 issued at September 30, 2019 and December 31, 2018, respectively; and 19,432,410 and 19,260,829 outstanding at September 30, 2019 and December 31, 2018, respectively	19	19
Additional paid-in capital	157,346	155,455
Accumulated deficit	(111,550)	(107,773)
Accumulated other comprehensive loss	(1,325)	(993)
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders’ equity	44,365	46,583
Total liabilities and shareholders’ equity	$ 182,960	$ 177,073

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,	
	2019	2018	2019	2018
REVENUES:				
Service fee revenue	$ 49,602	$ 52,890	$ 151,371	$ 162,519
Product revenue, net	6,579	8,469	20,216	27,081
Pass-through revenue	11,810	16,342	37,063	43,573
Total revenues	67,991	77,701	208,650	233,173
COSTS OF REVENUES:				
Cost of service fee revenue	32,296	33,576	99,062	102,478
Cost of product revenue	6,250	8,099	19,117	25,819
Cost of pass-through revenue	11,810	16,342	37,063	43,573
Total costs of revenues	50,356	58,017	155,242	171,870
Gross profit	17,635	19,684	53,408	61,303
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	18,886	19,007	55,329	59,423
Income (loss) from operations	(1,251)	677	(1,921)	1,880
INTEREST EXPENSE, net	458	612	1,418	1,802
Income (loss) before income taxes	(1,709)	65	(3,339)	78
INCOME TAX (BENEFIT) EXPENSE, net	(71)	751	438	2,140
NET LOSS	$ (1,638)	$ (686)	$ (3,777)	$ (2,062)
NET LOSS PER SHARE:				
Basic	$ (0.08)	$ (0.04)	$ (0.19)	$ (0.11)
Diluted	$ (0.08)	$ (0.04)	$ (0.19)	$ (0.11)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	19,432	19,258	19,454	19,193
Diluted	19,432	19,258	19,454	19,193
COMPREHENSIVE LOSS:				
Net loss	$ (1,638)	$ (686)	$ (3,777)	$ (2,062)
Foreign currency translation adjustment	(458)	(399)	(332)	(1,181)
TOTAL COMPREHENSIVE LOSS	$ (2,096)	$ (1,085)	$ (4,109)	$ (3,243)

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, 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 expense	—	—	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 expense	—	—	2,181	—	—	—	—	2,181
Exercise of stock options	9,500	—	14	—	—	—	—	14
Issuance of restricted stock	162,081	—	—	—	—	—	—	—
Tax withholding on restricted stock	—	—	(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 SHAREHOLDERS' EQUITY (cont.)
(In Thousands, Except Share Data)

Three Months Ended September 30, 2018

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Deficit	Income (Loss)	Shares	Amount	Equity
Balance, June 30, 2018	19,291,559	$ 19	$ 153,429	$ (110,377)	$ (712)	33,467	$ (125)	$ 42,234
Net loss	—	—	—	(686)	—	—	—	(686)
Stock-based compensation expense	—	—	1,066	—	—	—	—	1,066
Foreign currency translation adjustment, net of taxes	—	—	—	—	(399)	—	—	(399)
Balance, September 30, 2018	19,291,559	$ 19	$ 154,495	$ (111,063)	$ (1,111)	33,467	$ (125)	$ 42,215

Nine Months Ended September 30, 2018

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	Treasury Stock		Total Shareholders'
	Shares	Amount	Capital	Deficit	Income (Loss)	Shares	Amount	Equity
Balance, December 31, 2017	19,058,685	$ 19	$ 150,613	$ (109,281)	$ 70	33,467	$ (125)	$ 41,296
Net loss	—	—	—	(2,062)	—	—	—	(2,062)
Impact of the adoption of new accounting pronouncement	—	—	—	280	—	—	—	280
Stock-based compensation expense	—	—	3,073	—	—	—	—	3,073
Exercise of stock options	68,698	—	350	—	—	—	—	350
Shares issued related to acquisitions	76,998	—	822	—	—	—	—	822
Issuance of restricted stock	87,178	—	—	—	—	—	—	—
Tax withholding on restricted stock	—	—	(363)	—	—	—	—	(363)
Foreign currency translation adjustment, net of taxes	—	—	—	—	(1,181)	—	—	(1,181)
Balance, September 30, 2018	19,291,559	$ 19	$ 154,495	$ (111,063)	$ (1,111)	33,467	$ (125)	$ 42,215

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,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,777)	$ (2,062)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	7,942	8,697
Amortization of debt issuance costs	59	115
Provision for doubtful accounts	1,016	44
Provision for excess and obsolete inventory	(4)	123
Loss on disposal of fixed assets	129	42
Deferred income taxes	258	119
Stock-based compensation expense	2,181	3,073
Changes in operating assets and liabilities:		
Accounts receivable	20,194	18,836
Inventories	2,030	(35)
Prepaid expenses, other receivables and other assets	7,828	3,828
Trade accounts payable, deferred revenues, accrued expenses and other liabilities	(25,814)	(22,286)
Net cash provided by operating activities	12,042	10,494
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,164)	(4,008)
Proceeds from sale of property and equipment	—	59
Net cash used in investing activities	(3,164)	(3,949)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	14	350
Taxes paid on behalf of employees for withheld shares	(304)	(363)
Payments on performance-based contingent payments	—	(3,268)
Payments on finance lease obligations	(1,330)	(1,969)
Payments on term loan	—	(2,250)
Payments on revolving loan	(107,703)	(87,347)
Borrowings on revolving loan	101,294	86,614
Payments on other debt	(3,522)	(2,332)
Borrowings on other debt	1,105	—
Net cash used in financing activities	(10,446)	(10,565)
EFFECT OF EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(340)	(800)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,908)	(4,820)
Cash and cash equivalents, beginning of period	15,419	19,078
Restricted cash, beginning of period	207	214
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	15,626	19,292
Cash and cash equivalents, end of period	13,511	14,258
Restricted cash, end of period	207	214
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	$ 13,718	$ 14,472
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	$ 726	$ 1,130
Cash paid for interest	$ 1,451	$ 1,682
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and finance leases	$ 2,357	$ 1,159
Performance-based contingent payments through stock issuance	$ —	$ 822

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, 2018. We refer to PFSweb, Inc. and its subsidiaries collectively as "PFSweb," the "Company," "us," "we" and "our" in these 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.

2. *Significant Accounting Policies*

For a complete set of our significant accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2018. During the three and nine-month periods ended September 30, 2019, there were no significant changes to our significant accounting policies, other than those policies impacted by the new leasing guidance as described below in this Note 2 and Note 9.

Leases

We account for leases in accordance with Accounting Standard Codification ("ASC") No. 842 ("ASC 842"), *Leases*. Lease assets and liabilities are recognized at the commencement date of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the lease commencement date to discount payments to the present value. Some of these leases contain rent escalation clauses either fixed or adjusted periodically for inflation or market rates that are factored into our determination of lease payments. We also have variable lease payments that do not depend on a rate or index, primarily for items such as common area maintenance and real estate taxes, which are recorded as variable cost when incurred. The lease asset excludes incentives and initial direct costs incurred. Lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

Our operating leases are included in operating lease right-of-use assets, current portion of operating lease liabilities and operating lease liabilities on the condensed consolidated balance sheets. Our finance leases are included in property and equipment, long-term debt and finance lease obligations and current portion of long-term debt and finance lease obligations on the condensed consolidated balance sheets. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets. The expense for these short-term leases and operating leases is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components and have elected to combine as a single lease component. In addition, we utilized the portfolio approach to group leases with similar characteristics and did not use hindsight to determine lease term. See Note 9 for additional information.

Impact of Recently Issued Accounting Standards

Pronouncements Recently Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* ("ASU 2016-02"), which requires lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by all leases with terms of more than 12 months. In July 2018, the FASB issued additional authoritative guidance providing companies with an optional transition method to use the effective date of ASU 2016-02 as the date of initial application of transition and not restate comparative periods. We adopted the standard on January 1, 2019 using this optional transition method. As such, prior periods have not been recast under the new standard. We elected the package of practical expedients, which allows us to carry forward historical lease classification, the practical expedient to not separate non-lease components from lease components, and the short-term lease accounting policy election as defined in ASU 2016-02. We implemented internal controls and a lease accounting software to enable the preparation of financial information on adoption. The standard had a material impact on our condensed consolidated balance sheets, but did not have an impact on the condensed consolidated statements of operations and comprehensive loss and had no impact on cash provided by or used in operating, investing or financing activities on our condensed consolidated statements of cash flows. The most significant impact was the recognition of right-of-use assets of $40.8 million and operating lease liabilities of $46.5 million for operating leases at adoption date. The difference between the right-of-use assets and operating lease liabilities was recorded as an adjustment to deferred rent (lease incentives). The adoption of ASU 2016-02 had substantially no impact on our finance leases.

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*," 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 process of evaluating the impact of the adoption of ASU 2016-13 on our condensed consolidated financial statements.

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, 2019, with early adoption permitted. We do not expect the adoption of ASU 2017-04 to 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 will adopt on January 1, 2020 on a prospective basis. We are currently in the process of evaluating the impact of the adoption of ASU 2018-15 but do not expect the adoption to have a material impact on our condensed consolidated financial statements.

3. Revenue from Contracts with Clients and Customers

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

	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	$ 48,515	$ 19,476	$ 67,991	$ 151,195	$ 57,455	$ 208,650

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	PFS Operations	**LiveArea Professional Services**	**Total**	**PFS Operations**	**LiveArea Professional Services**	**Total**
Revenues:						
Service fee revenue	$ 32,106	$ 20,784	$ 52,890	$ 100,222	$ 62,297	$ 162,519
Product revenue, net	8,469	—	8,469	27,081	—	27,081
Pass-through revenue	15,702	640	16,342	42,076	1,497	43,573
Total revenues	$ 56,277	$ 21,424	$ 77,701	$ 169,379	$ 63,794	$ 233,173

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

	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	$ 48,515	$ 19,476	$ 67,991	$ 151,195	$ 57,455	$ 208,650

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	PFS Operations	**LiveArea Professional Services**	**Total**	**PFS Operations**	**LiveArea Professional Services**	**Total**
Revenues:						
Over time	$ 47,808	$ 21,424	$ 69,232	$ 142,298	$ 63,644	$ 205,942
Point-in-time	8,469	—	8,469	27,081	150	27,231
Total revenues	$ 56,277	$ 21,424	$ 77,701	$ 169,379	$ 63,794	$ 233,173

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

	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

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	PFS Operations	LiveArea Professional Services	Total	PFS Operations	LiveArea Professional Services	Total
Revenues by region:						
North America	$ 45,563	$ 18,743	$ 64,306	$ 136,252	$ 55,945	$ 192,197
Europe	10,714	2,681	13,395	33,127	7,849	40,976
Total revenues	$ 56,277	$ 21,424	$ 77,701	$ 169,379	$ 63,794	$ 233,173

Contract Assets and Contract Liabilities

Changes in costs to fulfill contract assets during the period decreased $1.5 million from December 31, 2018 to September 30, 2019, primarily due to an increase of approximately $3.4 million from new projects, offset by approximately $4.9 million of amortization and recognition of costs in the nine months ended September 30, 2019. 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 $2.8 million from December 31, 2018 to September 30, 2019, primarily due to an increase of approximately $5.3 million from new projects, offset by approximately $8.1 million of amortization and recognition of revenue in the nine months ended September 30, 2019. Contract losses recognized for the nine months ended September 30, 2019 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, 2019 were not materially impacted by any other factors.

Contract balances consist of the following (in thousands):

	September 30, 2019	December 31, 2018
Contract Assets		
Trade accounts receivable, net	$ 49,647	$ 72,180
Unbilled accounts receivable	966	235
Costs to fulfill	3,709	5,214
Total contract assets	$ 54,322	$ 77,629
Contract Liabilities		
Accrued contract liabilities	$ 1,124	$ 535
Deferred revenue	5,819	9,255
Total contract liabilities	$ 6,943	$ 9,790

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, 2019, 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 $14.9 million. We expect to recognize revenue on approximately 50% of the remaining performance obligations in 2019, 42% in 2020, and the remaining recognized thereafter.

4. Inventory Financing

Supplies Distributors 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 $11.0 million, as per 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 $2.2 million and $4.7 million as of September 30, 2019 and December 31, 2018, respectively, as trade accounts payable in the condensed consolidated balance sheets. As of September 30, 2019, Supplies Distributors had $2.2 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 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 5.75% as of September 30, 2019 and December 31, 2018. The facility also includes a monthly service fee. As of September 30, 2019, 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, 2019	December 31, 2018
U.S. Credit Agreement		
Revolver	$ 29,091	$ 35,500
Equipment loan	5,217	3,263
Debt issuance costs	(323)	(382)
Finance Leases	2,476	3,495
Other	352	82
Total	36,813	41,958
Less current portion of long-term debt	3,002	2,610
Long-term debt, less current portion	$ 33,811	$ 39,348

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 $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 extends the maturity date to November 1, 2023 and provides for additional $10.0 million in equipment financing.

As of September 30, 2019, we had $21.6 million of available credit under the revolving loan facility. As of September 30, 2019 and December 31, 2018, the weighted average interest rate on the revolving loan facility was 4.40% and 4.57%, respectively.

As of September 30, 2019, we had $7.2 million of available credit in equipment financing.

As of September 30, 2019, 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, 2019 and September 30, 2018, we had outstanding common stock equivalents of approximately 2.5 million and 2.0 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 Executive Officer.

During the three and nine months ended September 30, 2019, we changed the composition of the business unit direct contribution to include certain shared service costs. Prior period amounts have been reclassified to include those allocated expenses.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenues:				
PFS Operations	$ 48,515	$ 56,277	$ 151,195	$ 169,379
LiveArea Professional Services	19,476	21,424	57,455	63,794
Total revenues	$ 67,991	$ 77,701	$ 208,650	$ 233,173
Business unit direct contribution:				
PFS Operations	$ 1,702	$ 3,388	$ 6,357	$ 11,625
LiveArea Professional Services	2,594	3,470	6,768	7,467
Total business unit direct contribution	4,296	6,858	13,125	19,092
Unallocated corporate expenses	(5,547)	(6,181)	(15,046)	(17,212)
Income (loss) from operations	$ (1,251)	$ 677	$ (1,921)	$ 1,880

8. Commitments and Contingencies

We received municipal tax abatements in certain locations. In prior years, we received notice from a municipality that we did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to our tax abatement. We disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against us and the timing of the related payments has not been finalized. As of September 30, 2019, we believe we have adequately accrued for the expected assessment.

9. Leases

The Company adopted ASU 2016-02, as of January 1, 2019, using the modified retrospective approach. Prior year financial statements were not recast under the new standard and, therefore, those amounts are not presented below.

All of our office and warehouse facilities are leased under operating leases. We also lease vehicles primarily as operating leases. Most of our equipment leases are leased under finance leases. Lease costs are included within cost of service fee revenue, selling, general and administrative expenses and interest expense, net in our condensed consolidated statements of operations and comprehensive loss.

Total lease costs consist of the following (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Lease costs:		
Finance lease costs:		
Amortization of right-of-use assets	$ 341	$ 1,131
Interest on lease liabilities	40	129
Operating lease costs	2,380	6,986
Variable lease costs	755	2,102
Short-term lease costs	353	1,273
Total lease costs	$ 3,869	$ 11,621

We had $2.2 million of finance lease assets that are reported in property and equipment, net as of September 30, 2019. As of September 30, 2019, our weighted-average remaining lease term relating to our operating leases is 5.8 years, with a weighted-average discount of 5.06%. As of September 30, 2019, our weighted-average remaining lease term relating to our finance leases is 2.3 years, with a weighted-average discount of 5.66%. Our leases have remaining lease terms of up to 9.3 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year.

Maturities of lease liabilities are as follows (in thousands):

	September 30, 2019	
	Operating Leases	Finance Leases
2019	$ 2,608	$ 358
2020	9,897	1,242
2021	9,032	829
2022	8,181	139
2023	6,549	48
Thereafter	12,374	20
Total lease payments	48,641	2,636
Less interest	(6,603)	(160)
Total lease obligations	$ 42,038	$ 2,476

Supplemental consolidated cash flow information related to leases is as follows (in thousands):

	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 6,953
Operating cash flows from finance leases	$ 129
Financing cash flows from finance leases	$ 1,330
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 159
Increase in right-of-use assets resulting from other operating lease modifications	$ 1,660
Right-of-use assets obtained in exchange for new finance lease liabilities	$ 411

Total rental expense under operating leases approximated $11.1 million for the year ended December 31, 2018. Future minimum obligations under leases in effect as of December 31, 2018 having a non-cancelable term in excess of one year as determined prior to the adoption of ASU 2016-02 are as follows (in thousands):

	December 31, 2018	
	Operating Leases	**Finance Leases**
2019	$ 9,659	$ 1,811
2020	10,028	1,169
2021	9,222	725
2022	8,407	55
2023	6,828	—
Thereafter	12,840	—
Future minimum lease obligations	$ 56,980	3,760
Less interest		(265)
Present value of net minimum lease obligations		$ 3,495

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 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," "intend," "project," "estimate," 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. 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, 2018 (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. 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. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Overview

We are a global commerce solutions company. We manage the entire customer shopping experience for major branded manufacturers and retailers through two business segments, LiveArea Professional Services and PFS Operations. The LiveArea Professional Services segment provides services to support and improve the digital experience of shopping online, such as strategic commerce consulting, strategy, design and digital marketing services and technology services. The PFS Operations segment 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.

Service Fee Model. We refer to our standard seller services financial model as the Service Fee model. In this model, our clients own the inventory and are the merchants of record and engage us to provide various infrastructure, technology and digital agency services in support of their business operations. We offer our services as an integrated solution, which enables our clients to outsource their complete eCommerce needs to a single source and to focus on their core competencies, though clients are also able to select individual or groupings of our various service offerings on an à la carte basis. We currently provide services to clients that operate in a range of vertical markets, including technology manufacturing, computer products, cosmetics, fragile goods, coins and collectibles, apparel, telecommunications, consumer electronics and consumer packaged goods, among others.

In the Service Fee model, we typically charge for our services on time and material basis, a cost-plus basis, a percent of shipped revenue basis, a time and materials, project or retainer basis for our professional services or a per transaction basis, such as a per labor hour basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors.

Many of our service fee contracts involve third-party vendors who provide additional services, such as package delivery. The costs we are charged by these third-party vendors for these services are often passed on to our clients. Our billings for reimbursements of these costs and other 'out-of-pocket' expenses include travel, shipping and handling costs and telecommunication charges and are included in pass-through revenue.

Agent (Flash) Model. In our PFS Operations business unit, as an additional service, we offer the Agent, or Flash, financial model, in which our clients maintain ownership of the product inventory stored at our locations as in the Service Fee model. When a customer orders the product from our clients, a "flash" sale transaction passes product ownership to us for each order and we in turn immediately re-sell the product to the customer. The "flash" ownership exchange establishes us as the merchant of record, which enables us to use our existing merchant infrastructure to process sales to end customers, removing the need for the clients to establish these business processes internally, but permitting them to control the sales process to end customers. In this model, based on the terms of our current client arrangements, we record product revenue net of cost of product revenue as a component of service fee revenue in our condensed consolidated statement of operations.

Retail Model. Our PFS Operations business unit also provides a Retail model which allows us to purchase inventory from the client. We place the initial and replenishment purchase orders with the client and take ownership of the product either upon shipment to or delivery to our facility. In this model, depending on the terms of our client arrangements, we may own the inventory and the accounts receivable arising from our product sales. Under the Retail model, depending upon the product category and sales characteristics, we may require the client to provide product price protection as well as product purchase payment terms, right of return, and obsolescence protection appropriate to the product sales profile. Depending on the terms of our client arrangements in the Retail model, we record in our condensed consolidated statement of operations either: 1) product revenue as a component of product revenue, or 2) product revenue net of cost of product revenue as a component of service fee revenue. In general, we seek to structure client relationships in our Retail model under the net revenue approach to more closely align with our service fee revenue financial presentation and mitigate inventory ownership risk, although we have one client still operating under the gross revenue approach. Freight costs billed to customers are reflected as components of product revenue. This business model generally requires significant working capital, for which we have credit available either through credit terms provided by our clients or under senior credit facilities.

Currently, we are targeting growth within our Retail model to be through relationships with clients under which we can record service fee revenue in our condensed consolidated statement of operations. These relationships are often driven by the sales and marketing efforts of the manufacturers and third-party sales partners. In addition, as a result of certain operational restructuring of its business, our primary client relationship operating in the Retail model, Ricoh, has implemented, and will continue to implement, certain changes in the sale and distribution of Ricoh products. The changes have resulted, and are expected to continue to result, in reduced product revenues and profitability under our Retail model.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our company is driven by two main elements: new client relationships and organic growth from existing clients. Within our LiveArea Professional Services segment, we focus our sales efforts on engaging with brands, retailers and manufacturers to perform discrete projects such as website design, platform selection and platform implementation and system integration projects. We also focus our LiveArea sales efforts on engaging with brands, retailers and manufacturers to provide ongoing services such as digital marketing retainers and technology managed services engagements. Within our PFS Operations segment, we focus our sales efforts on larger contracts with brand-name companies within four primary target markets, health and beauty, home goods and collectibles, fashion, and consumer packaged goods. Consumer packaged goods require a longer duration to close but also have the potential to be higher quality and longer duration engagements. Within both segments, we focus our sales efforts on both new clients and also on existing clients where we believe opportunity exists to expand a client relationship to include additional services within the segment, across segments and/or across multiple geographies. We continue to monitor and control our costs to focus on profitability. While we are targeting our new service fee contracts to yield incremental gross profit, we also expect to incur incremental investments in technology development, operational and support management and sales and marketing expenses to help generate growth.

Our expenses comprise primarily four categories: 1) cost of service fee revenue, 2) cost of product revenue, 3) cost of pass-through revenue and 4) selling, general and administrative expenses.

Cost of service fee revenue - consists primarily of compensation and related expenses for our web-enabled customer contact center services, fulfillment and distribution services and professional, digital agency and technology services, and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses.

Cost of product revenue - consists of the purchase price of product sold and freight costs, which are reduced by certain reimbursable expenses. These reimbursable expenses include pass-through customer marketing programs, direct costs incurred in passing on any price decreases offered by vendors to cover price protection and certain special bids, the cost of products provided to replace defective product returned by customers and certain other expenses as defined under the distributor agreements.

Cost of pass-through revenue - the related reimbursable costs for pass-through expenditures are reflected as cost of pass-through revenue.

Selling, General and Administrative expenses - consist of expenses such as compensation and related expenses for sales and marketing staff, distribution costs (excluding freight) applicable to the Agent and the Retail model, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs, certain depreciation and amortization expenses and acquisition related, restructuring and other costs.

Monitoring and controlling our available cash balances and our expenses continues to be a primary focus. Our cash and liquidity positions are important components of financing current operations and our targeted growth.

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		
	2019	2018	Change	2019		2018	2019	2018	Change	2019		2018
Revenues												
Service fee revenue	$ 49,602	$ 52,890	$ (3,288)	73.0 %		68.1 %	$ 151,371	$ 162,519	$ (11,148)	72.5 %		69.7 %
Product revenue, net	6,579	8,469	(1,890)	9.7 %		10.9 %	20,216	27,081	(6,865)	9.7 %		11.6 %
Pass-through revenue	11,810	16,342	(4,532)	17.4 %		21.0 %	37,063	43,573	(6,510)	17.8 %		18.7 %
Total revenues	67,991	77,701	(9,710)	100.0 %		100.0 %	208,650	233,173	(24,523)	100.0 %		100.0 %
Costs of Revenues												
Cost of service fee revenue	32,296	33,576	(1,280)	65.1 %	(1)	63.5 %	99,062	102,478	(3,416)	65.4 %	(1)	63.1 %
Cost of product revenue	6,250	8,099	(1,849)	95.0 %	(2)	95.6 %	19,117	25,819	(6,702)	94.6 %	(2)	95.3 %
Cost of pass-through revenue	11,810	16,342	(4,532)	100.0 %	(3)	100.0 %	37,063	43,573	(6,510)	100.0 %	(3)	100.0 %
Total costs of revenues	50,356	58,017	(7,661)	74.1 %		74.7 %	155,242	171,870	(16,628)	74.4 %		73.7 %
Service fee gross profit	17,306	19,314	(2,008)	34.9 %	(1)	36.5 %	52,309	60,041	(7,732)	34.6 %	(1)	36.9 %
Product revenue gross profit	329	370	(41)	5.0 %	(2)	4.4 %	1,099	1,262	(163)	5.4 %	(2)	4.7 %
Total gross profit	17,635	19,684	(2,049)	25.9 %		25.3 %	53,408	61,303	(7,895)	25.6 %		26.3 %
Selling, General and Administrative expenses	18,886	19,007	(121)	27.8 %		24.5 %	55,329	59,423	(4,094)	26.5 %		25.5 %
Income (loss) from operations	(1,251)	677	(1,928)	(1.8)%		0.9 %	(1,921)	1,880	(3,801)	(0.9)%		0.8 %
Interest expense, net	458	612	(154)	0.7 %		0.8 %	1,418	1,802	(384)	0.7 %		0.8 %
Income (loss) before income taxes	(1,709)	65	(1,774)	(2.5)%		0.1 %	(3,339)	78	(3,417)	(1.6)%		— %
Income tax (benefit) expense, net	(71)	751	(822)	(0.1)%		1.0 %	438	2,140	(1,702)	0.2 %		0.9 %
Net loss	$ (1,638)	$ (686)	$ (952)	(2.4)%		(0.9)%	$ (3,777)	$ (2,062)	$ (1,715)	(1.8)%		(0.9)%

(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,			
	2019	**2018**	**Change**	**Change %**	**2019**	**2018**	**Change**	**Change %**
Revenues								
Service fee revenue	$ 31,176	$ 32,106	$ (930)	(3)%	$ 95,930	$ 100,222	$ (4,292)	(4)%
Product revenue, net	6,579	8,469	(1,890)	(22)%	20,216	27,081	(6,865)	(25)%
Pass-through revenue	10,760	15,702	(4,942)	(31)%	35,049	42,076	(7,027)	(17)%
Total revenues	48,515	56,277	(7,762)	(14)%	151,195	169,379	(18,184)	(11)%
Costs of Revenues								
Cost of service fee revenue	22,349	22,837	(488)	(2)%	69,023	71,135	(2,112)	(3)%
Cost of product revenue	6,250	8,099	(1,849)	(23)%	19,117	25,819	(6,702)	(26)%
Cost of pass-through revenue	10,760	15,702	(4,942)	(31)%	35,049	42,076	(7,027)	(17)%
Total costs of revenues	39,359	46,638	(7,279)	(16)%	123,189	139,030	(15,841)	(11)%
Gross Profit	9,156	9,639	(483)	(5)%	28,006	30,349	(2,343)	(8)%
Direct operating expenses	7,454	6,251	1,203	19 %	21,649	18,724	2,925	16 %
Direct contribution	$ 1,702	$ 3,388	$ (1,686)	(50)%	$ 6,357	$ 11,625	$ (5,268)	(45)%

PFS Operations total revenues for the three and nine months ended September 30, 2019 decreased by $7.8 million and $18.2 million, respectively. compared with the corresponding period in 2018. Service fee revenue for the three and nine months ended September 30, 2019 decreased $0.9 million and $4.3 million, respectively, compared to the prior year. The service fee revenue decline was primarily due to reduced revenue as a result of client bankruptcy, which accounted for $2.1 million and $5.8 million of the decrease during the three and nine month periods, as well as the impact of certain client terminations, partially offset by growth from new and existing clients.

Product revenue, net, for the three and nine months ended September 30, 2019, decreased by $1.9 million and $6.9 million, respectively, compared to the corresponding period in 2018 due to the revenue stream being primarily dependent on one client, which restructured its operations and discontinued certain product lines which has resulted, and is expected to continue to result, in reduced product revenue activity.

Pass-through revenue decreased by $4.9 million and $7.0 million during the three and nine months ended September 30, 2019, respectively, compared to the corresponding periods in 2018 primarily due to a client transitioning their freight activity to a direct carrier relationship as well as the impact of client terminations, partially offset by growth from new and existing clients.

PFS Operations gross margin increased to 18.9% for the three months ended September 30, 2019 as compared to 17.1% the same period of the prior year. PFS Operations gross margin increased slightly to 18.5% for the nine months ended September 30, 2019 as compared to 17.9% in the same period of the prior year. The increased margin in the three and nine month periods is primarily due the impact from reduced product revenue activity, which is conducted at a lower gross margin. This was partially offset by lower gross margin on service fee revenue activity as a result of a higher percentage of such activity being generated from lower margin fulfillment related services.

Direct operating expenses increased by $1.2 million and $2.9 million for the three and nine months ended September 30, 2019, respectively, compared to the corresponding periods in 2018. The increase was primarily due to increased sales and marketing costs and facility related costs, and for the nine month period a higher provision for doubtful accounts due to a client bankruptcy, partially offset by other cost reductions.

LiveArea Professional Services (in thousands, except percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Change	Change %	2019	2018	Change	Change %
Revenues								
Service fee revenue	$ 18,426	$ 20,784	$ (2,358)	(11)%	$ 55,441	$ 62,297	$ (6,856)	(11)%
Pass-through revenue	1,050	640	410	64 %	2,014	1,497	517	35 %
Total revenues	19,476	21,424	(1,948)	(9)%	57,455	63,794	(6,339)	(10)%
Costs of revenues								
Cost of service fee revenue	9,947	10,739	(792)	(7)%	30,039	31,343	(1,304)	(4)%
Cost of pass-through revenue	1,050	640	410	64 %	2,014	1,497	517	35 %
Total costs of revenues	10,997	11,379	(382)	(3)%	32,053	32,840	(787)	(2)%
Gross profit	8,479	10,045	(1,566)	(16)%	25,402	30,954	(5,552)	(18)%
Direct operating expenses	5,885	6,575	(690)	(10)%	18,634	23,487	(4,853)	(21)%
Direct contribution	$ 2,594	$ 3,470	$ (876)	(25)%	$ 6,768	$ 7,467	$ (699)	(9)%

LiveArea Professional Services revenues for the three and nine months ended September 30, 2019 decreased by $1.9 million and $6.3 million, respectively, compared to the corresponding periods in 2018. The decrease in revenues are primarily due to reduced technology services project activity, as well as client terminations. We expect this trend of lower period over period sales to continue for the remainder of 2019 as we work to rebuild the sales pipeline.

LiveArea Professional Services gross margin decreased to 43.5% from 46.9% in the three months ended September 30, 2019 and decreased to 44.2% from 48.5% in the nine months ended September 30, 2019, compared to the corresponding periods of the prior year. The decrease in gross margin is primarily attributable to increased labor costs, including higher than expected costs incurred on certain client projects. The LiveArea Professional Services revenue and gross margin in the three and nine months ended September 30, 2019, were partially impacted by increased monies earned on direct and indirect technology related product sales.

Direct operating expenses decreased by $0.7 million and $4.9 million for the three and nine months ended September 30, 2019, respectively, compared to the corresponding periods in 2018. The decrease was primarily attributable to our cost reduction efforts in response to lower revenues with a reduction in non-billable personnel related costs as well as a reduction in amortization of intangible assets.

Corporate (in thousands, except percentages)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	Change	Change %	2019	2018	Change	Change %
Unallocated corporate expenses	$ 5,547	$ 6,181	$ (634)	(10)%	$ 15,046	$ 17,212	$ (2,166)	(13)%

Unallocated corporate expenses decreased by $0.6 million and $2.2 million for the three and nine months ended September 30, 2019, respectively, compared to the corresponding periods in 2018. The decrease for the three month period was primarily due to reduced restructuring and other costs. The nine month period was further impacted by a decrease in tax related costs.

Income Taxes

During the three months ended September 30, 2019, we recorded a tax benefit of $0.1 million comprised primarily of $0.3 million related to the majority of our international operations, a provision of $0.1 million related to state income taxes, and a provision of $0.1 million associated with the tax amortization of goodwill 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, 2019, we recorded a tax provision of $0.4 million comprised primarily of a benefit of $0.2 million related to the majority of our international operations, a provision of $0.2 million related to state income taxes, and a provision of $0.4 million associated with the tax amortization of goodwill 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, 2019 and 2018, 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 its 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 and (ii) our ongoing assessment that the recoverability of our deferred tax assets is not likely in several jurisdictions.

Liquidity and Capital Resources

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 cash position decreased in the nine months ended September 30, 2019 primarily from payments on our outstanding debt obligations as well as capital expenditures, partially offset by cash provided by operating activities.

Cash Flows from Operating Activities

During the nine months ended September 30, 2019, net cash provided by operations was $12.0 million, compared to $10.5 million in the same period of the prior year, which consisted primarily of cash income from operations before net working capital changes. Cash flow benefits from operating activities for both periods also arose from favorable changes in operating assets and liabilities partially due to timing of collections and payment activity.

Cash Flows from Investing Activities

Cash used in investing activities included capital expenditures of $3.2 million and $3.9 million during the nine months ended September 30, 2019 and 2018, 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 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 $7.0 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, 2019 and 2018, cash used in financing activities was $10.4 million and $10.6 million, respectively, which are primarily due to reductions in on our debt and finance lease obligations.

Working Capital

During the nine months ended September 30, 2019, our working capital decreased to $10.3 million as of September 30, 2019 compared to $22.9 million at December 31, 2018. This decrease was primarily related to our adoption of ASC 842 and the inclusion of approximately $8.5 million in operating lease liabilities that were not included in the prior year, as well as the reduction of our debt from cash provided by operations.

To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives 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, 2019, 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 $11.0 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 Capital 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 $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 extends the maturity date to November 1, 2023.

In accordance with ASC 470, Debt ("ASC 470"), we recorded a $0.1 million loss on early extinguishment of debt in 2018 related to the Amended Facility.

As of September 30, 2019 and December 31, 2018, the weighted average interest rate on the revolving loan facility was 4.40% and 4.57%, 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 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, 2019, 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 three months ended September 30, 2019, 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.

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, 2018 filed with the Securities and Exchange Commission.

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	Incorporated by Reference From:
3.1	Amended and Restated Certificate of Incorporation of PFSweb, Inc.	PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657)
3.1.1	Certificate of Amendment of Certificate of Incorporation of PFSweb, Inc.	PFSweb, Inc. Form 10-K for the fiscal year ended December 31, 2005 filed on March 31, 2006.
3.1.2	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.	PFSweb, Inc. Report on Form 8-K filed on June 2, 2008
3.1.3	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.	PFSweb, Inc. Form 10-Q filed on August 14, 2009
3.1.4	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.	PFSweb, Inc. Report on Form 8-K filed on July 18, 2013
3.2	Amended and Restated By-Laws.	PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657)
3.2.1	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.	PFSweb, Inc. Report on Form 8-K filed on November 13, 2007
3.2.2	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.	PFSweb, Inc. Report on Form 8-K filed on July 2, 2010
3.2.3	Amendments to the Amended and Restated By-Laws of PFSweb, Inc.	PFSweb, Inc. Report on Form 8-K filed on July 18, 2013
4.1	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.	PFSweb, Inc. Report on Form 8-K filed on June 28, 2018
10.83	Amendment No. 1 dated as of November 1, 2018 by and among Priority Fulfillment Services, Inc., a Delaware corporation, as Borrower, PFSweb, Inc., a Delaware corporation, and certain Subsidiaries and Affiliates, as Guarantors, and Regions Bank, as Administrative Agent, for itself and the other Lenders identified therein.	PFSweb, Inc. Form 10-Q for the quarterly period ended September 30, 2018
31.1	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.	Filed Herewith
31.2	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.	Filed Herewith
32.1	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.	Filed Herewith
101.INS	XBRL Instance Document.	Filed Herewith
101.SCH	XBRL Taxonomy Extension Schema.	Filed Herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	Filed Herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase.	Filed Herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase.	Filed Herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	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 12, 2019

PFSweb, Inc.

By: /s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer
Executive Vice President

Exhibit 31.1

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;

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 function):

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 12, 2019

By: /s/ Michael Willoughby
Chief Executive Officer

Exhibit 31.2

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;

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 function):

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 12, 2019

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

Exhibit 32.1

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, 2019 (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 12, 2019	/s/ Michael Willoughby
	Michael Willoughby
	Chief Executive Officer
November 12, 2019	/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.