



March 6, 2014

## **PFSweb Reports Fourth Quarter and Full Year 2013 Results**

### **2013 Service Fee Equivalent Revenue of \$118.7 Million Drives Adj. EBITDA of \$10.7 Million; Service Fee Equivalent Revenue in 2014 Expected to Increase 7%-12% to \$127-\$133 Million, With Adj. EBITDA Increasing 12%-31% to \$12-\$14 Million**

ALLEN, TX--(Marketwired - Mar 6, 2014) - PFSweb, Inc. (NASDAQ: PFSW), an international provider of end-to-end eCommerce solutions, reported financial results for the fourth quarter and full year ended December 31, 2013 and provided its financial outlook for 2014.

#### **Fourth Quarter 2013 Financial Highlights**

- **Service fee equivalent revenue (a non-GAAP measure defined and discussed below) decreased to \$35.6 million compared to \$38.0 million in the same period in 2012.**
- **Service fee gross margin increased 410 basis points to 30.3% compared to 26.2% in the same period in 2012.**
- **Adjusted EBITDA (a non-GAAP measure defined and discussed below) increased to \$3.9 million versus \$3.8 million in the same period in 2012.**
- **Cash and cash equivalents totaled \$22.4 million compared to \$19.6 million as of December 31, 2012.**
- **Debt totaled \$11.1 million, declining 50% from December 31, 2012.**

#### **Fourth Quarter 2013 Financial Results**

Total revenues in the fourth quarter totaled \$66.7 million compared to \$77.0 million in the same period in 2012. The decrease in total revenues was primarily due to the expected decline in product revenue to \$21.3 million compared to \$28.3 million in the same period in 2012 as a result of restructuring activities by the company's largest client in this segment. Service fee revenue in the fourth quarter of 2013 totaled \$34.3 million compared to \$35.4 million the same period in 2012.

Service fee equivalent revenue was \$35.6 million compared to \$38.0 million in the same period in 2012. This decrease, which was primarily due to previously announced client transitions earlier in the year, was partially offset by revenues generated from new and expanded client relationships as well as higher seasonal client volumes.

Service fee gross margin in the fourth quarter increased 410 basis points to 30.3% compared to 26.2% in the same period in 2012. This increase resulted primarily from a change in the client mix, an increased level of higher margin professional and technology services, including project activity, and improved operating efficiencies.

Adjusted EBITDA increased to \$3.9 million compared to \$3.8 million in the same period in 2012, despite reduced revenue levels.

Net loss in the fourth quarter of 2013 was \$0.4 million, or \$(0.03) per diluted share, compared to net income of \$0.7 million, or \$0.05 per diluted share, in the same period in 2012. Net loss in the fourth quarter of 2013 included approximately \$1.4 million in stock-based compensation expense. Net loss in the fourth quarter of 2012 included approximately \$0.3 million in stock-based compensation expense.

Non-GAAP net income (a non-GAAP measure defined and discussed below) in the fourth quarter of 2013 was \$1.0 million, or \$0.06 per diluted share, compared to non-GAAP net income of \$1.0 million, or \$0.07 per diluted share, for the fourth quarter of 2012.

At December 31, 2013, the company's cash and cash equivalents increased \$2.8 million to \$22.4 million compared to \$19.6 million at December 31, 2012. Total debt at December 31, 2013 was reduced by 50% to \$11.1 million compared to \$22.1 million at December 31, 2012. The decrease in debt primarily resulted from the inflow of cash proceeds from the company's May 2013 equity offering.

#### **Full Year 2013 Financial Results**

Total revenues decreased to \$241.6 million in 2013 compared to \$281.6 million in 2012. Product revenue decreased to \$91.0 million in 2013 compared to \$119.7 million in 2012. Service fee revenue in 2013 decreased to \$113.0 million compared to \$120.4 million in 2012. Service fee equivalent revenue was \$118.7 million compared to \$130.0 million in 2012.

Service fee gross margin in 2013 increased 580 basis points to 31.7% compared to 25.9% in 2012.

Adjusted EBITDA was \$10.7 million in 2013 compared to \$12.0 million in 2012.

Net loss in 2013 was \$5.9 million, or \$(0.39) per diluted share, compared to a net loss of \$1.5 million, or \$(0.12) per diluted share, in 2012. Net loss in 2013 included approximately \$2.6 million in stock-based compensation expense and \$2.5 million in restructuring charges. Net loss in 2012 included approximately \$1.3 million in stock-based compensation expense, \$0.9 million in move related expenses and \$0.5 million in lease termination costs.

Non-GAAP net loss in 2013 was \$0.8 million, or \$(0.05) per diluted share, compared to non-GAAP net income of \$1.1 million, or \$0.09 per diluted share, in 2012.

## **Management Commentary**

"2013 was a pivotal year as we refocused our operations on expanding our higher-margin service business and improving overall operating efficiencies," said Michael Willoughby, CEO of PFSweb. "As expected during the fourth quarter, the continued year-over-year decline in our lower-margin product revenue segment and transition of certain previously announced client programs weighed on our top line. However, we generated stronger than anticipated service fee equivalent revenue, the metric we use to measure our primary business activity. This was largely the result of robust client sales experienced throughout the U.S. and Europe during the all-important holiday season. Additionally, our cost initiatives implemented throughout the year helped expand service fee revenue gross margin and Adjusted EBITDA as compared to the prior year, despite reduced revenue levels."

Willoughby concluded: "As we move into 2014, we remain very excited about our opportunities for growth in revenue and profitability through new and expanded client relationships and a continued emphasis on controlling costs. In addition to the strong U.S. ecommerce market, we are pleased to see increased opportunities in Europe and Canada, as well as through our strategic relationship with transcosmos. While our new client activity and existing client growth in the first half of 2014 is expected to be more than offset by the remaining impact of client transitions that occurred in 2013, we expect to exit 2014 as a much stronger company, especially given the expected rollout of the U.S. Mint and other recent client wins in the second half of the year."

## **2014 Outlook**

PFSweb is currently targeting 2014 service fee equivalent revenue to range between \$127 million to \$133 million, increasing 7% to 12% from 2013. The company is also targeting Adjusted EBITDA in 2014 to range between \$12 million and \$14 million, representing an increase of 12% to 31% from 2013.

## **Conference Call**

PFSweb will conduct a conference call today at 11:00 a.m. Eastern time to discuss its results for the fourth quarter and full year ended December 31, 2013.

The company's CEO Mike Willoughby and CFO Tom Madden will host the conference call, followed by a question and answer period.

Date: Thursday, March 6, 2014  
Time: 11:00 a.m. Eastern time (10:00 a.m. Central time)  
Dial-in number: 1-877-941-4774  
International number: 1-480-629-9760  
Conference ID: 4670781

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Liolios Group at 1-949-574-3860.

The conference call will be broadcast live and available for replay at <http://public.viavid.com/index.php?id=108042> and via the investor relations section at [www.pfsweb.com](http://www.pfsweb.com).

A replay of the conference call will be available after 2:00 p.m. Eastern time on the same day through March 20, 2014.

Toll-free replay number: 1-877-870-5176  
International replay number: 1-858-384-5517  
Replay ID: 4670781

### **About PFSweb Inc.**

PFSweb, Inc. (NASDAQ: PFSW) is an international business process outsourcing provider of end-to-end eCommerce solutions. The company provides these solutions and services to major brand names and other companies seeking to optimize their supply chain and enhance their traditional and online business channels, which include both direct-to-consumer and business-to-business sales channels. PFSweb supports organizations across various industries, including Procter & Gamble, L'Oreal, LEGO, Columbia Sportswear, Riverbed, Ricoh, Roots Canada Ltd., Diageo, BCBGMAXAZRIA, T.J. Maxx, the United States Mint, and many more. PFSweb is headquartered in Allen, TX with additional locations in Tennessee, Mississippi, Canada, Belgium, and the Philippines. For more information, please visit [www.pfsweb.com](http://www.pfsweb.com).

### **Non-GAAP Financial Measures**

This news release may contain certain non-GAAP measures, including non-GAAP net income (loss), earnings before interest, income taxes, depreciation and amortization (EBITDA), Adjusted EBITDA and service fee equivalent revenue.

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

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

Service fee equivalent revenue represents service fee revenue plus the gross profit earned on product revenue.

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

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

### **Forward-Looking Statements**

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

### **PFSweb, Inc. and Subsidiaries**

Preliminary Unaudited Condensed Consolidated Balance Sheets (A)  
(In Thousands, Except Share Data)

|        | December 31,<br>2013 | December 31,<br>2012 |
|--------|----------------------|----------------------|
| ASSETS | <hr/>                | <hr/>                |

CURRENT ASSETS:

|   |                |                |
|---|----------------|----------------|
| Cash and cash equivalents   | \$ 22,418      | \$ 19,626      |
| Restricted cash   | 130            | 283            |
| Accounts receivable, net of allowance for doubtful accounts of \$382 and \$450 at December 31, 2013 and December 31, 2012, respectively | 55,292         | 45,684         |
| Inventories, net of reserves of \$962 and \$1,789 at December 31, 2013 and December 31, 2012, respectively                              | 14,169         | 24,654         |
| Other receivables   | 5,241          | 7,675          |
| Prepaid expenses and other current assets   | 4,713          | 4,346          |
| Total current assets  | <u>101,963</u> | <u>102,268</u> |

|                             |                       |                       |
|-----------------------------|-----------------------|-----------------------|
| PROPERTY AND EQUIPMENT, net | 27,190                | 27,917                |
| OTHER ASSETS                | 2,883                 | 3,286                 |
| Total assets                | <u><u>132,036</u></u> | <u><u>133,471</u></u> |

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT LIABILITIES:

|   |               |               |
|---|---------------|---------------|
| Current portion of long-term debt and capital lease obligations | \$ 8,231      | \$ 16,660     |
| Trade accounts payable  | 34,096        | 40,493        |
| Deferred revenue  | 8,181         | 6,648         |
| Accrued expenses  | 25,045        | 23,097        |
| Total current liabilities                                       | <u>75,553</u> | <u>86,898</u> |

|  |               |                |
|--|---------------|----------------|
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 2,876         | 5,400          |
| DEFERRED REVENUE   | 7,491         | 7,562          |
| DEFERRED RENT  | 5,191         | 5,560          |
| Total liabilities  | <u>91,111</u> | <u>105,420</u> |

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

|  |                          |                          |
|--|--------------------------|--------------------------|
| Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding  | -                        | -                        |
| Common stock, \$.001 par value; 35,000,000 shares authorized; 16,540,904 and 12,812,386 shares issued at December 31, 2013 and December 31, 2012, respectively; and 16,507,437 and 12,778,919 shares outstanding as of December 31, 2013 and December 31, 2012, respectively | 17                       | 13                       |
| Additional paid-in capital   | 124,522                  | 106,018                  |
| Accumulated deficit  | (85,300)                 | (79,409)                 |
| Accumulated other comprehensive income   | 1,811                    | 1,554                    |
| Treasury stock at cost, 33,467 shares  | (125)                    | (125)                    |
| Total shareholders' equity   | <u>40,925</u>            | <u>28,051</u>            |
| Total liabilities and shareholders' equity   | <u><u>\$ 132,036</u></u> | <u><u>\$ 133,471</u></u> |

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

**PFSweb, Inc. and Subsidiaries**

Preliminary Unaudited Condensed Consolidated Statements of Operations (A)  
(In Thousands, Except Per Share Data)

|   | Three Months Ended<br>December 31, |                 | Twelve Months Ended<br>December 31, |                    |
|---|------------------------------------|-----------------|-------------------------------------|--------------------|
|   | 2013                               | 2012            | 2013                                | 2012               |
| <b>REVENUES:</b>  |                                    |                 |                                     |                    |
| Product revenue, net                                      | \$ 21,322                          | \$ 28,290       | \$ 90,982                           | \$ 119,740         |
| Service fee revenue                                       | 34,269                             | 35,411          | 112,977                             | 120,433            |
| Pass-thru revenue   | 11,133                             | 13,269          | 37,644                              | 41,390             |
| Total revenues  | <u>66,724</u>                      | <u>76,970</u>   | <u>241,603</u>                      | <u>281,563</u>     |
| <b>COSTS OF REVENUES:</b>                                 |                                    |                 |                                     |                    |
| Cost of product revenue                                   | 20,022                             | 25,700          | 85,237                              | 110,183            |
| Cost of service fee revenue                               | 23,895                             | 26,119          | 77,160                              | 89,249             |
| Cost of pass-thru revenue                                 | 11,133                             | 13,269          | 37,644                              | 41,390             |
| Total costs of revenues                                   | <u>55,050</u>                      | <u>65,088</u>   | <u>200,041</u>                      | <u>240,822</u>     |
| Gross profit  | 11,674                             | 11,882          | 41,562                              | 40,741             |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES              | 11,840                             | 10,813          | 46,235                              | 40,620             |
| Income (loss) from operations                             | (166 )                             | 1,069           | (4,673 )                            | 121                |
| INTEREST EXPENSE (INCOME), NET                            | 115                                | 230             | 679                                 | 988                |
| Income (loss) before income taxes                         | (281 )                             | 839             | (5,352 )                            | (867 )             |
| INCOME TAX PROVISION (BENEFIT)                            | 128                                | 187             | 539                                 | 644                |
| NET INCOME (LOSS)   | <u>\$ (409 )</u>                   | <u>\$ 652</u>   | <u>\$ (5,891 )</u>                  | <u>\$ (1,511 )</u> |
| NON-GAAP NET INCOME (LOSS)                                | <u>\$ 970</u>                      | <u>\$ 963</u>   | <u>\$ (772 )</u>                    | <u>\$ 1,130</u>    |
| <b>NET INCOME (LOSS) PER SHARE:</b>                       |                                    |                 |                                     |                    |
| Basic   | <u>\$ (0.03 )</u>                  | <u>\$ 0.05</u>  | <u>\$ (0.39 )</u>                   | <u>\$ (0.12 )</u>  |
| Diluted   | <u>\$ (0.03 )</u>                  | <u>\$ 0.05</u>  | <u>\$ (0.39 )</u>                   | <u>\$ (0.12 )</u>  |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES<br/>OUTSTANDING:</b> |                                    |                 |                                     |                    |
| Basic   | <u>16,345</u>                      | <u>12,779</u>   | <u>14,957</u>                       | <u>12,777</u>      |
| Diluted   | <u>16,345</u>                      | <u>12,907</u>   | <u>14,957</u>                       | <u>12,777</u>      |
| EBITDA  | <u>\$ 2,511</u>                    | <u>\$ 3,482</u> | <u>\$ 5,537</u>                     | <u>\$ 9,369</u>    |
| ADJUSTED EBITDA   | <u>\$ 3,890</u>                    | <u>\$ 3,793</u> | <u>\$ 10,656</u>                    | <u>\$ 12,010</u>   |

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

**PFSweb, Inc. and Subsidiaries**

Reconciliation of certain Non-GAAP Items to GAAP  
(In Thousands, Except Per Share Data)

|                               | Three Months Ended<br>December 31, |              | Twelve Months Ended<br>December 31, |              |
|-------------------------------|------------------------------------|--------------|-------------------------------------|--------------|
|                               | 2013                               | 2012         | 2013                                | 2012         |
| NET INCOME (LOSS)             | \$ (409 )                          | \$ 652       | \$ (5,891 )                         | \$ (1,511 )  |
| Income tax expense            | 128                                | 187          | 539                                 | 644          |
| Interest expense, net         | 115                                | 230          | 679                                 | 988          |
| Depreciation and amortization | <u>2,677</u>                       | <u>2,413</u> | <u>10,210</u>                       | <u>9,248</u> |

|                                 |                 |                 |                  |                  |
|---------------------------------|-----------------|-----------------|------------------|------------------|
| EBITDA                          | \$ 2,511        | \$ 3,482        | \$ 5,537         | \$ 9,369         |
| Stock-based compensation        | 1,379           | 311             | 2,574            | 1,325            |
| Restructuring and other charges | -               | -               | 2,545            | -                |
| Lease terminations costs        | -               | -               | -                | 450              |
| Move related expenses           | -               | -               | -                | 866              |
| ADJUSTED EBITDA                 | <u>\$ 3,890</u> | <u>\$ 3,793</u> | <u>\$ 10,656</u> | <u>\$ 12,010</u> |

|                                 | Three Months Ended |               | Twelve Months Ended |                 |
|---------------------------------|--------------------|---------------|---------------------|-----------------|
|                                 | December 31,       |               | December 31,        |                 |
|                                 | 2013               | 2012          | 2013                | 2012            |
| NET INCOME (LOSS)               | \$ (409)           | \$ 652        | \$ (5,891)          | \$ (1,511)      |
| Stock-based compensation        | 1,379              | 311           | 2,574               | 1,325           |
| Restructuring and other charges | -                  | -             | 2,545               | -               |
| Lease terminations costs        | -                  | -             | -                   | 450             |
| Move related expenses           | -                  | -             | -                   | 866             |
| NON-GAAP NET INCOME (LOSS)      | <u>\$ 970</u>      | <u>\$ 963</u> | <u>\$ (772)</u>     | <u>\$ 1,130</u> |

|                              |           |         |           |           |
|------------------------------|-----------|---------|-----------|-----------|
| NET INCOME (LOSS) PER SHARE: |           |         |           |           |
| Basic                        | \$ (0.03) | \$ 0.05 | \$ (0.39) | \$ (0.12) |
| Diluted                      | \$ (0.03) | \$ 0.05 | \$ (0.39) | \$ (0.12) |

|                                       |         |         |           |         |
|---------------------------------------|---------|---------|-----------|---------|
| NON-GAAP NET INCOME (LOSS) Per Share: |         |         |           |         |
| Basic                                 | \$ 0.06 | \$ 0.08 | \$ (0.05) | \$ 0.09 |
| Diluted                               | \$ 0.06 | \$ 0.07 | \$ (0.05) | \$ 0.09 |

|                                | Three Months Ended |                  | Twelve Months Ended |                   |
|--------------------------------|--------------------|------------------|---------------------|-------------------|
|                                | December 31,       |                  | December 31,        |                   |
|                                | 2013               | 2012             | 2013                | 2012              |
| TOTAL REVENUES                 | \$ 66,724          | \$ 76,970        | \$ 241,603          | \$ 281,563        |
| Pass-thru revenue              | (11,133)           | (13,269)         | (37,644)            | (41,390)          |
| Cost of product revenue        | (20,022)           | (25,700)         | (85,237)            | (110,183)         |
| SERVICE FEE EQUIVALENT REVENUE | <u>\$ 35,569</u>   | <u>\$ 38,001</u> | <u>\$ 118,722</u>   | <u>\$ 129,990</u> |

**PFSweb, Inc. and Subsidiaries**

Preliminary Unaudited Consolidating Statements of Operations

For the Three Months Ended December 31, 2013

(In Thousands)

| REVENUES:                       | Business &    |                |              |               |
|---------------------------------|---------------|----------------|--------------|---------------|
|                                 | PFSweb        | Retail Connect | Eliminations | Consolidated  |
| Product revenue, net            | \$ -          | \$ 21,322      | \$ -         | \$ 21,322     |
| Service fee revenue             | 30,580        | 3,689          | -            | 34,269        |
| Service fee revenue - affiliate | 3,779         | 338            | (4,117)      | -             |
| Pass-thru revenue               | <u>11,133</u> | <u>-</u>       | <u>-</u>     | <u>11,133</u> |

|   |                 |               |                |                 |
|---|-----------------|---------------|----------------|-----------------|
| Total revenues                                      | 45,492          | 25,349        | (4,117)        | 66,724          |
| <b>COSTS OF REVENUES:</b>                           |                 |               |                |                 |
| Cost of product revenue                             | -               | 20,022        | -              | 20,022          |
| Cost of service fee revenue                         | 24,028          | 3,547         | (3,680)        | 23,895          |
| Cost of pass-thru revenue                           | 11,133          | -             | -              | 11,133          |
| Total costs of revenues                             | <u>35,161</u>   | <u>23,569</u> | <u>(3,680)</u> | <u>55,050</u>   |
| Gross profit  | 10,331          | 1,780         | (437)          | 11,674          |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> |                 |               |                |                 |
| Income (loss) from operations                       | <u>(705)</u>    | <u>539</u>    | <u>-</u>       | <u>(166)</u>    |
| INTEREST EXPENSE (INCOME), NET                      | (29)            | 144           | -              | 115             |
| Income (loss) before income taxes                   | (676)           | 395           | -              | (281)           |
| INCOME TAX PROVISION (BENEFIT)                      | (15)            | 143           | -              | 128             |
| NET INCOME (LOSS)                                   | <u>\$ (661)</u> | <u>\$ 252</u> | <u>\$ -</u>    | <u>\$ (409)</u> |
| NON-GAAP NET INCOME (LOSS)                          | <u>\$ 718</u>   | <u>\$ 252</u> | <u>\$ -</u>    | <u>\$ 970</u>   |
| EBITDA  | <u>\$ 1,929</u> | <u>\$ 582</u> | <u>\$ -</u>    | <u>\$ 2,511</u> |
| ADJUSTED EBITDA                                     | <u>\$ 3,308</u> | <u>\$ 582</u> | <u>\$ -</u>    | <u>\$ 3,890</u> |

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

|                                |                 |               |             |                 |
|--------------------------------|-----------------|---------------|-------------|-----------------|
| NET INCOME (LOSS)              | \$ (661)        | \$ 252        | \$ -        | (409)           |
| Income tax expense (benefit)   | (15)            | 143           | -           | 128             |
| Interest expense (income), net | (29)            | 144           | -           | 115             |
| Depreciation and amortization  | 2,634           | 43            | -           | 2,677           |
| EBITDA                         | <u>\$ 1,929</u> | <u>\$ 582</u> | <u>\$ -</u> | <u>\$ 2,511</u> |
| Stock-based compensation       | 1,379           | -             | -           | 1,379           |
| ADJUSTED EBITDA                | <u>\$ 3,308</u> | <u>\$ 582</u> | <u>\$ -</u> | <u>\$ 3,890</u> |

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

|                            |               |               |             |               |
|----------------------------|---------------|---------------|-------------|---------------|
| NET INCOME (LOSS)          | \$ (661)      | \$ 252        | \$ -        | \$ (409)      |
| Stock-based compensation   | 1,379         | -             | -           | 1,379         |
| NON-GAAP NET INCOME (LOSS) | <u>\$ 718</u> | <u>\$ 252</u> | <u>\$ -</u> | <u>\$ 970</u> |

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

**PFSweb, Inc. and Subsidiaries**

Preliminary Unaudited Consolidating Statements of Operations  
For the Twelve Months Ended December 31, 2013  
(In Thousands)

|                      | <u>PFSweb</u> | <u>Business &amp;<br/>Retail Connect</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|----------------------|---------------|--|---------------------|---------------------|
| REVENUES:            |               |  |                     |                     |
| Product revenue, net | \$ -          | \$ 90,982                                | \$ -                | \$ 90,982           |

|  |                   |                 |                 |                   |
|--|-------------------|-----------------|-----------------|-------------------|
| Service fee revenue                          | 104,448           | 8,529           | -               | 112,977           |
| Service fee revenue - affiliate              | 10,246            | 1,448           | (11,694)        | -                 |
| Pass-thru revenue                            | 37,644            | -               | -               | 37,644            |
| Total revenues                               | <u>152,338</u>    | <u>100,959</u>  | <u>(11,694)</u> | <u>241,603</u>    |
| COSTS OF REVENUES:                           |                   |                 |                 |                   |
| Cost of product revenue                      | -                 | 85,237          | -               | 85,237            |
| Cost of service fee revenue                  | 78,843            | 8,708           | (10,391)        | 77,160            |
| Cost of pass-thru revenue                    | 37,644            | -               | -               | 37,644            |
| Total costs of revenues                      | <u>116,487</u>    | <u>93,945</u>   | <u>(10,391)</u> | <u>200,041</u>    |
| Gross profit                                 | 35,851            | 7,014           | (1,303)         | 41,562            |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 41,709            | 5,829           | (1,303)         | 46,235            |
| Income (loss) from operations                | (5,858)           | 1,185           | -               | (4,673)           |
| INTEREST EXPENSE (INCOME), NET               | 84                | 595             | -               | 679               |
| Income (loss) before income taxes            | (5,942)           | 590             | -               | (5,352)           |
| INCOME TAX PROVISION (BENEFIT)               | 185               | 354             | -               | 539               |
| NET INCOME (LOSS)                            | <u>\$ (6,127)</u> | <u>\$ 236</u>   | <u>\$ -</u>     | <u>\$ (5,891)</u> |
| NON-GAAP NET INCOME (LOSS)                   | <u>\$ (1,008)</u> | <u>\$ 236</u>   | <u>\$ -</u>     | <u>\$ (772)</u>   |
| EBITDA                                       | <u>\$ 4,193</u>   | <u>\$ 1,344</u> | <u>\$ -</u>     | <u>\$ 5,537</u>   |
| ADJUSTED EBITDA                              | <u>\$ 9,312</u>   | <u>\$ 1,344</u> | <u>\$ -</u>     | <u>\$ 10,656</u>  |

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

|                                 |                 |                 |             |                  |
|---------------------------------|-----------------|-----------------|-------------|------------------|
| NET INCOME (LOSS)               | \$ (6,127)      | \$ 236          | \$ -        | (5,891)          |
| Income tax expense (benefit)    | 185             | 354             | -           | 539              |
| Interest expense (income), net  | 84              | 595             | -           | 679              |
| Depreciation and amortization   | 10,051          | 159             | -           | 10,210           |
| EBITDA                          | \$ 4,193        | \$ 1,344        | \$ -        | \$ 5,537         |
| Stock-based compensation        | 2,574           | -               | -           | 2,574            |
| Restructuring and other charges | 2,545           | -               | -           | 2,545            |
| ADJUSTED EBITDA                 | <u>\$ 9,312</u> | <u>\$ 1,344</u> | <u>\$ -</u> | <u>\$ 10,656</u> |

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

|                                 |                   |               |             |                 |
|---------------------------------|-------------------|---------------|-------------|-----------------|
| NET INCOME (LOSS)               | \$ (6,127)        | \$ 236        | \$ -        | \$ (5,891)      |
| Stock-based compensation        | 2,574             | -             | -           | 2,574           |
| Restructuring and other charges | 2,545             | -             | -           | 2,545           |
| NON-GAAP NET INCOME (LOSS)      | <u>\$ (1,008)</u> | <u>\$ 236</u> | <u>\$ -</u> | <u>\$ (772)</u> |

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

**PFSweb, Inc. and Subsidiaries**

Unaudited Consolidating Statements of Operations  
For the Three Months Ended December 31, 2012  
(In Thousands)



|   | PFSweb          | Business &<br>Retail Connect | Eliminations   | Consolidated    |
|---|-----------------|------------------------------|----------------|-----------------|
| <b>REVENUES:</b>                                    |                 |                              |                |                 |
| Product revenue, net                                | \$ -            | \$ 28,290                    | \$ -           | \$ 28,290       |
| Service fee revenue                                 | 35,411          | -                            | -              | 35,411          |
| Service fee revenue - affiliate                     | 1,776           | 229                          | (2,005)        | -               |
| Pass-thru revenue                                   | 13,269          | -                            | -              | 13,269          |
| Total revenues                                      | <u>50,456</u>   | <u>28,519</u>                | <u>(2,005)</u> | <u>76,970</u>   |
| <b>COSTS OF REVENUES:</b>                           |                 |                              |                |                 |
| Cost of product revenue                             | -               | 25,700                       | -              | 25,700          |
| Cost of service fee revenue                         | 26,866          | 229                          | (976)          | 26,119          |
| Cost of pass-thru revenue                           | 13,269          | -                            | -              | 13,269          |
| Total costs of revenues                             | <u>40,135</u>   | <u>25,929</u>                | <u>(976)</u>   | <u>65,088</u>   |
| Gross profit  | 10,321          | 2,590                        | (1,029)        | 11,882          |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> |                 |                              |                |                 |
|   | 9,456           | 2,386                        | (1,029)        | 10,813          |
| Income (loss) from operations                       | 865             | 204                          | -              | 1,069           |
| INTEREST EXPENSE (INCOME), NET                      | 63              | 167                          | -              | 230             |
| Income (loss) before income taxes                   | 802             | 37                           | -              | 839             |
| INCOME TAX PROVISION (BENEFIT)                      | 174             | 13                           | -              | 187             |
| NET INCOME (LOSS)                                   | <u>\$ 628</u>   | <u>\$ 24</u>                 | <u>\$ -</u>    | <u>\$ 652</u>   |
| NON-GAAP NET INCOME (LOSS)                          | <u>\$ 939</u>   | <u>\$ 24</u>                 | <u>\$ -</u>    | <u>\$ 963</u>   |
| EBITDA  | <u>\$ 3,243</u> | <u>\$ 239</u>                | <u>\$ -</u>    | <u>\$ 3,482</u> |
| ADJUSTED EBITDA                                     | <u>\$ 3,554</u> | <u>\$ 239</u>                | <u>\$ -</u>    | <u>\$ 3,793</u> |

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

|                                |                 |               |             |                 |
|--------------------------------|-----------------|---------------|-------------|-----------------|
| NET INCOME (LOSS)              | \$ 628          | \$ 24         | \$ -        | 652             |
| Income tax expense (benefit)   | 174             | 13            | -           | 187             |
| Interest expense (income), net | 63              | 167           | -           | 230             |
| Depreciation and amortization  | 2,378           | 35            | -           | 2,413           |
| EBITDA                         | <u>\$ 3,243</u> | <u>\$ 239</u> | <u>\$ -</u> | <u>\$ 3,482</u> |
| Stock-based compensation       | 311             | -             | -           | 311             |
| ADJUSTED EBITDA                | <u>\$ 3,554</u> | <u>\$ 239</u> | <u>\$ -</u> | <u>\$ 3,793</u> |

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

|                            |               |              |             |               |
|----------------------------|---------------|--------------|-------------|---------------|
| NET INCOME (LOSS)          | \$ 628        | \$ 24        | \$ -        | 652           |
| Stock-based compensation   | 311           | -            | -           | 311           |
| NON-GAAP NET INCOME (LOSS) | <u>\$ 939</u> | <u>\$ 24</u> | <u>\$ -</u> | <u>\$ 963</u> |

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

Unaudited Consolidating Statements of Operations  
For the Twelve Months Ended December 31, 2012  
(In Thousands)

|   | PFSweb            | Business &<br>Retail Connect | Eliminations   | Consolidated      |
|---|-------------------|------------------------------|----------------|-------------------|
| <b>REVENUES:</b>                                    |                   |                              |                |                   |
| Product revenue, net                                | \$ -              | \$ 119,740                   | \$ -           | \$ 119,740        |
| Service fee revenue                                 | 120,433           | -                            | -              | 120,433           |
| Service fee revenue - affiliate                     | 5,397             | 679                          | (6,076)        | -                 |
| Pass-thru revenue                                   | 41,390            | -                            | -              | 41,390            |
| Total revenues                                      | <u>167,220</u>    | <u>120,419</u>               | <u>(6,076)</u> | <u>281,563</u>    |
| <b>COSTS OF REVENUES:</b>                           |                   |                              |                |                   |
| Cost of product revenue                             | -                 | 110,183                      | -              | 110,183           |
| Cost of service fee revenue                         | 92,196            | 679                          | (3,626)        | 89,249            |
| Cost of pass-thru revenue                           | 41,390            | -                            | -              | 41,390            |
| Total costs of revenues                             | <u>133,586</u>    | <u>110,862</u>               | <u>(3,626)</u> | <u>240,822</u>    |
| Gross profit  | 33,634            | 9,557                        | (2,450)        | 40,741            |
| <b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> |                   |                              |                |                   |
| Income (loss) from operations                       | (2,030)           | 2,151                        | -              | 121               |
| INTEREST EXPENSE (INCOME), NET                      | 203               | 785                          | -              | 988               |
| Income (loss) before income taxes                   | (2,233)           | 1,366                        | -              | (867)             |
| INCOME TAX PROVISION (BENEFIT)                      | 82                | 562                          | -              | 644               |
| NET INCOME (LOSS)                                   | <u>\$ (2,315)</u> | <u>\$ 804</u>                | <u>\$ -</u>    | <u>\$ (1,511)</u> |
| NON-GAAP NET INCOME (LOSS)                          | <u>\$ 326</u>     | <u>\$ 804</u>                | <u>\$ -</u>    | <u>\$ 1,130</u>   |
| EBITDA  | <u>\$ 7,117</u>   | <u>\$ 2,252</u>              | <u>\$ -</u>    | <u>\$ 9,369</u>   |
| ADJUSTED EBITDA                                     | <u>\$ 9,758</u>   | <u>\$ 2,252</u>              | <u>\$ -</u>    | <u>\$ 12,010</u>  |

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

|                                |                 |                 |             |                  |
|--------------------------------|-----------------|-----------------|-------------|------------------|
| NET INCOME (LOSS)              | \$ (2,315)      | \$ 804          | \$ -        | (1,511)          |
| Income tax expense (benefit)   | 82              | 562             | -           | 644              |
| Interest expense (income), net | 203             | 785             | -           | 988              |
| Depreciation and amortization  | 9,147           | 101             | -           | 9,248            |
| EBITDA                         | <u>\$ 7,117</u> | <u>\$ 2,252</u> | <u>\$ -</u> | <u>\$ 9,369</u>  |
| Stock-based compensation       | 1,325           | -               | -           | 1,325            |
| Lease termination costs        | 450             | -               | -           | 450              |
| Move related expenses          | 866             | -               | -           | 866              |
| ADJUSTED EBITDA                | <u>\$ 9,758</u> | <u>\$ 2,252</u> | <u>\$ -</u> | <u>\$ 12,010</u> |

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

|                          |            |        |      |         |
|--------------------------|------------|--------|------|---------|
| NET INCOME (LOSS)        | \$ (2,315) | \$ 804 | \$ - | (1,511) |
| Stock-based compensation | 1,325      | -      | -    | 1,325   |
| Lease termination costs  | 450        | -      | -    | 450     |
| Move related expenses    | 866        | -      | -    | 866     |

|                            |               |               |             |                 |
|----------------------------|---------------|---------------|-------------|-----------------|
| NON-GAAP NET INCOME (LOSS) | \$ <u>326</u> | \$ <u>804</u> | \$ <u>-</u> | \$ <u>1,130</u> |
|----------------------------|---------------|---------------|-------------|-----------------|

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

**PFSweb, Inc. and Subsidiaries**

Unaudited Condensed Consolidating Balance Sheets

as of December 31, 2013

(In Thousands)

|  | <u>PFSweb</u>        | <u>Business &amp;<br/>Retail Connect</u> | <u>Eliminations</u>    | <u>Consolidated</u>   |
|--|----------------------|--|------------------------|-----------------------|
| <b>ASSETS</b>  |                      |  |                        |                       |
| <b>CURRENT ASSETS:</b>   |                      |  |                        |                       |
| Cash and cash equivalents  | \$ 15,028            | \$ 7,390                                 | \$ -                   | \$ 22,418             |
| Restricted cash  | -                    | 130                                      | -                      | 130                   |
| Accounts receivable, net   | 37,857               | 18,697                                   | (1,262)                | 55,292                |
| Inventories, net   | -                    | 14,169                                   | -                      | 14,169                |
| Other receivables  | -                    | 5,241                                    | -                      | 5,241                 |
| Prepaid expenses and other current assets                          | <u>3,552</u>         | <u>1,161</u>                             | <u>-</u>               | <u>4,713</u>          |
| Total current assets   | <u>56,437</u>        | <u>46,788</u>                            | <u>(1,262)</u>         | <u>101,963</u>        |
| PROPERTY AND EQUIPMENT, net  | 26,945               | 245                                      | -                      | 27,190                |
| RECEIVABLE/INVESTMENT IN AFFILIATES                                | 12,777               | -  | (12,777)               | -                     |
| OTHER ASSETS   | <u>2,800</u>         | <u>83</u>                                | <u>-</u>               | <u>2,883</u>          |
| Total assets   | <u><u>98,959</u></u> | <u><u>47,116</u></u>                     | <u><u>(14,039)</u></u> | <u><u>132,036</u></u> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                         |                      |  |                        |                       |
| <b>CURRENT LIABILITIES:</b>  |                      |  |                        |                       |
| Current portion of long-term debt and capital lease obligations    | \$ 4,419             | \$ 3,812                                 | \$ -                   | \$ 8,231              |
| Trade accounts payable   | 11,602               | 23,756                                   | (1,262)                | 34,096                |
| Deferred revenue   | 8,181                | -  | -                      | 8,181                 |
| Accrued expenses   | <u>18,114</u>        | <u>6,931</u>                             | <u>-</u>               | <u>25,045</u>         |
| Total current liabilities  | 42,316               | 34,499                                   | (1,262)                | 75,553                |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 2,876                | -  | -                      | 2,876                 |
| PAYABLE TO AFFILIATES  | -                    | 23,045                                   | (23,045)               | -                     |
| DEFERRED REVENUE   | 7,491                | -  | -                      | 7,491                 |
| DEFERRED RENT  | <u>5,191</u>         | <u>-</u>                                 | <u>-</u>               | <u>5,191</u>          |
| Total liabilities  | <u>57,874</u>        | <u>57,544</u>                            | <u>(24,307)</u>        | <u>91,111</u>         |
| <b>COMMITMENTS AND CONTINGENCIES</b>                               |                      |  |                        |                       |
| <b>SHAREHOLDERS' EQUITY:</b>                                       |                      |  |                        |                       |
| Common stock   | 17                   | 19                                       | (19)                   | 17                    |
| Capital contributions  | -                    | 1,000                                    | (1,000)                | -                     |
| Additional paid-in capital   | 124,522              | 28,060                                   | (28,060)               | 124,522               |
| Retained earnings (accumulated deficit)                            | (85,146)             | (41,850)                                 | 41,696                 | (85,300)              |

|  |                  |                  |                    |                   |
|--|------------------|------------------|--------------------|-------------------|
| Accumulated other comprehensive income     | 1,817            | 2,343            | (2,349)            | 1,811             |
| Treasury stock                             | (125)            | -                | -                  | (125)             |
| Total shareholders' equity                 | <u>41,085</u>    | <u>(10,428)</u>  | <u>10,268</u>      | <u>40,925</u>     |
| Total liabilities and shareholders' equity | <u>\$ 98,959</u> | <u>\$ 47,116</u> | <u>\$ (14,039)</u> | <u>\$ 132,036</u> |

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

|  | PFSweb        | Business &<br>Retail Connect | Eliminations    | Consolidated   |
|--|---------------|------------------------------|-----------------|----------------|
| <b>ASSETS</b>  |               |                              |                 |                |
| <b>CURRENT ASSETS:</b>   |               |                              |                 |                |
| Cash and cash equivalents  | \$ 13,079     | \$ 6,547                     | \$ -            | \$ 19,626      |
| Restricted cash  | -             | 283                          | -               | 283            |
| Accounts receivable, net   | 34,831        | 11,574                       | (721)           | 45,684         |
| Inventories, net   | -             | 24,654                       | -               | 24,654         |
| Other receivables  | -             | 7,675                        | -               | 7,675          |
| Prepaid expenses and other current assets                          | <u>2,817</u>  | <u>1,529</u>                 | <u>-</u>        | <u>4,346</u>   |
| Total current assets   | <u>50,727</u> | <u>52,262</u>                | <u>(721)</u>    | <u>102,268</u> |
| PROPERTY AND EQUIPMENT, net  | 27,651        | 266                          | -               | 27,917         |
| RECEIVABLE/INVESTMENT IN AFFILIATES                                | 13,396        | -                            | (13,396)        | -              |
| OTHER ASSETS   | <u>3,166</u>  | <u>120</u>                   | <u>-</u>        | <u>3,286</u>   |
| Total assets   | <u>94,940</u> | <u>52,648</u>                | <u>(14,117)</u> | <u>133,471</u> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                         |               |                              |                 |                |
| <b>CURRENT LIABILITIES:</b>  |               |                              |                 |                |
| Current portion of long-term debt and capital lease obligations    | \$ 13,072     | \$ 3,588                     | \$ -            | \$ 16,660      |
| Trade accounts payable   | 12,109        | 29,105                       | (721)           | 40,493         |
| Deferred revenue   | 6,573         | 75                           | -               | 6,648          |
| Accrued expenses   | <u>16,743</u> | <u>6,354</u>                 | <u>-</u>        | <u>23,097</u>  |
| Total current liabilities  | 48,497        | 39,122                       | (721)           | 86,898         |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion | 5,400         | -                            | -               | 5,400          |
| PAYABLE TO AFFILIATES  | -             | 22,795                       | (22,795)        | -              |
| DEFERRED REVENUE   | 7,562         | -                            | -               | 7,562          |
| DEFERRED RENT  | <u>5,482</u>  | <u>78</u>                    | <u>-</u>        | <u>5,560</u>   |
| Total liabilities  | <u>66,941</u> | <u>61,995</u>                | <u>(23,516)</u> | <u>105,420</u> |

COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

|  |                  |                  |                    |                   |
|--|------------------|------------------|--------------------|-------------------|
| Common stock                               | 13               | 19               | (19)               | 13                |
| Capital contributions                      | -                | 1,000            | (1,000)            | -                 |
| Additional paid-in capital                 | 106,018          | 28,059           | (28,059)           | 106,018           |
| Retained earnings (accumulated deficit)    | (79,461)         | (40,606)         | 40,658             | (79,409)          |
| Accumulated other comprehensive income     | 1,554            | 2,181            | (2,181)            | 1,554             |
| Treasury stock                             | (125)            | -                | -                  | (125)             |
| Total shareholders' equity                 | <u>27,999</u>    | <u>(9,347)</u>   | <u>9,399</u>       | <u>28,051</u>     |
| Total liabilities and shareholders' equity | <u>\$ 94,940</u> | <u>\$ 52,648</u> | <u>\$ (14,117)</u> | <u>\$ 133,471</u> |

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