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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2017

OR

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

For the Transition Period from ______ to ______

Commission File Number 000-28275

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

Delaware **(State of Incorporation)**	**75-2837058** **(I.R.S. Employer I.D. No.)**
505 Millennium Drive, Allen, Texas **(Address of principal executive offices)**	**75013** **(Zip Code)**

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

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

Indicate by checkmark whether the registrant has submitted electronically 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 ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☒
Non-accelerated filer	☐	Smaller Reporting Company	☐
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 ☒

At May 7, 2017 there were 18,829,267 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q
March 31, 2017

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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) March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,640	$ 24,425
Restricted cash	215	215
Accounts receivable, net of allowance for doubtful accounts of $485 and $494 at March 31, 2017 and December 31, 2016, respectively	60,762	80,223
Inventories, net of reserves of $487 and $568 at March 31, 2017 and December 31, 2016, respectively	8,047	6,632
Other receivables	5,347	6,750
Prepaid expenses and other current assets	6,706	7,299
Total current assets	96,717	125,544
PROPERTY AND EQUIPMENT, net	28,265	30,264
IDENTIFIABLE INTANGIBLES, net	5,881	6,864
GOODWILL	46,210	46,210
OTHER ASSETS	3,643	2,454
Total assets	$ 180,716	$ 211,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 6,662	$ 7,300
Trade accounts payable	43,257	59,752
Deferred revenue	5,827	7,156
Performance-based contingent payments	2,425	2,405
Accrued expenses	26,338	30,360
Total current liabilities	84,509	106,973
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	46,353	52,399
DEFERRED REVENUE, less current portion	4,073	4,127
DEFERRED RENT	4,658	4,810
PERFORMANCE-BASED CONTINGENT PAYMENTS, less current portion	3,005	1,678
OTHER LIABILITIES	2,125	1,066
Total liabilities	144,723	171,053
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; 18,830,426 and 18,768,567 shares issued at March 31, 2017 and December 31, 2016, respectively; and 18,796,959 and 18,735,100 outstanding at March 31, 2017 and December 31, 2016, respectively	19	19
Additional paid-in capital	146,556	146,286
Accumulated deficit	(110,173)	(105,317)
Accumulated other comprehensive income (loss)	(284)	(580)
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	35,993	40,283
Total liabilities and shareholders' equity	$ 180,716	$ 211,336

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
REVENUES:		
Service fee revenue	$ 57,265	$ 49,318
Product revenue, net	11,318	13,607
Pass-through revenue	10,185	12,155
Total revenues	78,768	75,080
COSTS OF REVENUES:		
Cost of service fee revenue	39,584	32,274
Cost of product revenue	10,725	12,903
Cost of pass-through revenue	10,185	12,155
Total costs of revenues	60,494	57,332
Gross profit	18,274	17,748
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation of $524 and $766 for the three months ended March 31, 2017 and 2016, respectively	21,718	17,550
Income (loss) from operations	(3,444)	198
INTEREST EXPENSE, net	637	484
Loss from operations before income taxes	(4,081)	(286)
INCOME TAX EXPENSE, net	775	466
NET LOSS	$ (4,856)	$ (752)
NET LOSS PER SHARE:		
Basic	$ (0.26)	$ (0.04)
Diluted	$ (0.26)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	18,736	18,325
Diluted	18,736	18,325
COMPREHENSIVE LOSS:		
Net loss	$ (4,856)	$ (752)
Foreign currency translation adjustment	296	643
TOTAL COMPREHENSIVE LOSS	$ (4,560)	$ (109)

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)

	March 31, 2017	March 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,856)	$ (752)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,907	3,603
Amortization of debt issuance costs	37	36
Provision for doubtful accounts	(9)	(32)
Provision for excess and obsolete inventory	20	24
Deferred income taxes	175	34
Stock-based compensation expense	524	766
Change in performance-based contingent payments	1,347	(1,036)
Changes in operating assets and liabilities:		
Accounts receivable	19,739	11,499
Inventories	(1,433)	834
Prepaid expenses, other receivables and other assets	1,779	1,748
Deferred rent	(162)	(135)
Accounts payable, deferred revenue, accrued expenses and other liabilities	(21,159)	(24,965)
Net cash provided by (used in) operating activities	(91)	(8,376)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(666)	(1,367)
Net cash used in investing activities	(666)	(1,367)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	2	742
Decrease in restricted cash	—	51
Payments on performance-based contingent payments	—	(88)
Payments on capital lease obligations	(892)	(731)
Payments on debt, net	(589)	—
Borrowings (payments) on term loan	(563)	1,200
Borrowings on revolver	22,021	15,838
Payments on revolver	(28,346)	(14,147)
Net cash provided by (used in) financing activities	(8,367)	2,865
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	339	733
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,785)	(6,145)
CASH AND CASH EQUIVALENTS, beginning of period	24,425	21,781
CASH AND CASH EQUIVALENTS, end of period	$ 15,640	$ 15,636
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and capital leases	$ 769	$ 821

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

1. *OVERVIEW AND BASIS OF PRESENTATION*

PFSweb, Inc. and its subsidiaries are collectively referred to as the “Company”; “Supplies Distributors” collectively refers to Supplies Distributors, Inc. and its subsidiaries; “Retail Connect” refers to PFSweb Retail Connect, Inc.; “REV” collectively refers to REV Solutions, Inc. and REVTECH Solutions India Private Limited; “LAL” refers to LiveAreaLabs, Inc.; “Moda” refers to Moda Superbe Limited; “CrossView” refers to CrossView, Inc.; “Conexus” refers to Conexus Limited; and “PFSweb” refers to PFSweb, Inc. and its subsidiaries, excluding Supplies Distributors and Retail Connect.

PFSweb Overview

PFSweb is a global provider of omni-channel commerce solutions, including a broad range of technology, infrastructure and professional services, to major brand name companies and others seeking to optimize their supply chain and to enhance their online and traditional business channels and initiatives in the United States, Canada, and Europe. PFSweb’s service offerings include website design, creation and integration, digital agency and marketing, eCommerce technologies, order management, customer care, logistics and fulfillment, financial management and professional consulting.

Supplies Distributors Overview

Supplies Distributors and PFSweb operate under distributor agreements with Ricoh Company Limited and Ricoh USA Inc., a strategic business unit within the Ricoh Family Group of Companies (collectively hereafter referred to as “Ricoh”), under which Supplies Distributors acts as a distributor of various Ricoh products. The majority of Supplies Distributors’ revenue is generated by its sale of product purchased from Ricoh. Supplies Distributors has obtained financing (see Note 7) to fund certain working capital requirements for the sale of primarily Ricoh products. Supplies Distributors sells its products in the United States, Canada and Europe.

Supplies Distributors also maintains agreements with certain additional clients where it operates as an agent for the resale of product between the client and the customer, and records product revenue net of cost of product revenue as a component of service fee revenue. Pursuant to agreements between PFSweb and Supplies Distributors, PFSweb provides transaction management and fulfillment services to Supplies Distributors.

Basis of Presentation

The interim condensed consolidated financial statements as of March 31, 2017, and for the three months ended March 31, 2017 and 2016, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments necessary for a fair presentation of the Company’s financial position as of March 31, 2017, its results of operations for the three months ended March 31, 2017 and 2016 and its cash flows for the three months ended March 31, 2017 and 2016. Results of the Company’s operations for interim periods may not be indicative of results for the full fiscal year.

2. *SIGNIFICANT ACCOUNTING POLICIES*

Principles of Consolidation

All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The recognition and allocation of certain revenues and selling, general and administrative expenses in these condensed consolidated financial statements also require management estimates and assumptions.

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances.

These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the condensed consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 in the section entitled "Risk Factors." Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's condensed consolidated financial statements are fairly stated in accordance with U.S. GAAP, and provide a fair presentation of the Company's financial position and results of operations.

Revenue and Cost Recognition

The Company derives revenue primarily from services provided under contractual arrangements with its clients or from the sale of products under its distributor agreements. The following revenue recognition policies define the manner in which the Company accounts for sales transactions.

The Company recognizes revenue when persuasive evidence that a sales arrangement exists, product shipment or delivery has occurred or services are rendered, the sales price or fee is fixed or determinable, and collectability is reasonably assured.

In instances where revenue is derived from sales of third-party vendor products or services, the Company records revenue on a gross basis when the Company is a principal to the transaction and net of costs when the Company is acting as an agent between the customer or client and the vendor. The Company considers several factors to determine whether it is a principal or an agent, most notably whether the Company is the primary obligor to the vendor or customer, has established its own pricing and has inventory and credit risks, if applicable.

Service Fee Revenue Activity

The Company's service fee revenue primarily relates to its distribution services, order management/customer care services, professional digital agency and technology services. The Company typically charges its service fee revenue on either a cost-plus basis, a percent of shipped revenue basis, on a time and materials, project or retainer basis for professional services, or a per transaction basis, such as a per item basis for fulfillment services or a per labor hour basis for web-enabled customer contact center services. Additional fees are billed for other services.

The Company evaluates its contractual arrangements to determine whether or not they include multiple service elements. Revenue recognition is determined for the separate service elements of the contract in accordance with the requirements of Accounting Standards Codification ("ASC") 605, "*Revenue Recognition*." A deliverable constitutes a separate unit of accounting when it has standalone value and there are no return rights or other contingencies present for the delivered elements. The Company allocates revenue to each element based on estimated selling price. Each of the Company's client contracts, and the related services, is unique, with individual needs and criteria customized for each client. Each client engagement is scoped and priced separately and as such the Company is not able to establish vendor specific objective evidence of fair value for its services, nor is third-party evidence available to establish stand-alone selling prices. Accordingly the Company uses management's best estimate of selling price for the deliverables. The Company establishes its estimates considering internal factors such as margin objectives, pricing practices and controls as well as market conditions such as competitor pricing strategies.

Distribution services relate primarily to inventory management, product receiving, warehousing and fulfillment (i.e., picking, packing and shipping) and facilities and operations management. Service fee revenue for these activities is recognized as earned, which is either (i) on a per transaction basis or (ii) at the time of product fulfillment, which occurs at the completion of the distribution services.

Order management/customer care services relate primarily to taking customer orders for the Company's clients' products. These services also include addressing customer questions related to orders, as well as cross-selling/up-selling activities. Service fee revenue for this activity is recognized as the services are rendered. Fees charged to the client are on a per transaction basis based on either (i) a pre-determined fee per order or fee per telephone minutes incurred, (ii) a per dedicated agent fee, or (iii) are included in the product fulfillment service fees that are recognized on product shipment.

Professional consulting and technology service revenues primarily relate to design, implementation, service and support of eCommerce platforms, website design and solutions and quality control for the Company's clients. Additionally, the Company provides digital agency services that enable client marketing programs to attract new customers, convert buyers and increase website value. These fees are typically charged on either a per labor hour basis, or transaction basis, a dedicated resource model, a fixed price arrangement, or a percent of merchandise shipped basis. Service fee revenue for this activity is generally recognized as the services are rendered.

The Company performs front-end set-up and integration services to support client eCommerce platforms and websites. When the Company determines these front-end set-up and integration services do not meet the criteria for recognition as a separate unit of accounting, the Company defers the start-up fees received and the related costs, and recognizes them over the expected performance period. When the Company determines these front-end set-up and integration services do meet the criteria for recognition as a separate unit of accounting, for time and material arrangements, the Company recognizes revenue as services are rendered and costs as they are incurred. For fixed-price arrangements, the Company uses the completed contract method to recognize revenues and costs if reasonable and reliable cost estimates for a project cannot be made. If reasonable and reliable costs estimates for a project can be made, the Company recognizes revenue over the expected performance period on a proportional performance basis, as determined by the relationship of actual costs incurred compared to the estimated total contract costs.

The Company's billings for reimbursement of out-of-pocket expenses, including travel and certain third-party vendor expenses such as shipping and handling costs and telecommunication charges, are included in pass-through revenue. The related reimbursable costs are reflected as cost of pass-through revenue.

The Company's cost of service fee revenue, representing the cost to provide the services described above, is recognized as incurred. Cost of service fee revenue also includes certain costs associated with technology collaboration and ongoing technology support that include maintenance, web hosting and other ongoing programming activities. These activities are primarily performed to support the distribution and order management/customer care services and are recognized as incurred.

Product Revenue Activity

Depending on the terms of the customer arrangement, Supplies Distributors recognizes product revenue and product cost either upon the shipment of product to customers or when the customer receives the product. Supplies Distributors permits its customers to return product for credit against other purchases, which include returns for defective products (that Supplies Distributors then returns to the manufacturer) and incorrect shipments. Supplies Distributors provides a reserve for estimated returns and allowances and offers terms to its customers that it believes are standard for its industry.

Freight costs billed to customers are reflected as components of product revenue. Freight costs incurred are recorded as a component of cost of product revenue.

Under its distributor agreements, Supplies Distributors bills Ricoh for reimbursements of certain expenses, including: pass-through customer marketing programs, including rebates and co-op funds; certain freight costs; direct costs incurred in passing on any price decreases offered by Ricoh to Supplies Distributors or its customers 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. Supplies Distributors records these reimbursable amounts as they are incurred as other receivables in the condensed consolidated balance sheet with a corresponding reduction in either inventory or cost of product revenue. Supplies Distributors also records pass-through customer marketing programs as a reduction of both product revenue and cost of product revenue.

Accounts Receivable

The Company recognizes revenue and records trade accounts receivable, pursuant to the methods described above, when collectability is reasonably assured. Collectability is evaluated in the aggregate and on an individual customer or client basis taking into consideration payment due date, historical payment trends, current financial position, results of independent credit evaluations and payment terms. Related reserves are determined by either using percentages applied to certain aged receivable categories based on historical results, reevaluated and adjusted as additional information is received, or a specific identification method. After all attempts to collect a receivable have failed, the receivable is written off against the allowance for doubtful accounts.

Deferred Revenues and Deferred Costs

The Company primarily performs its services under multiple-year contracts, certain of which include early termination provisions, and clients are obligated to pay for services performed. In conjunction with these long-term contracts, the Company sometimes receives start-up fees to cover its implementation costs, including certain technology infrastructure and development costs. When the Company determines that these start-up and integration activities do not meet the criteria for recognition as a separate unit of accounting, the Company defers the start-up fees received, and the related costs, and recognizes them over the expected performance period. The amortization of deferred revenue is included as a component of service fee revenue. The amortization of deferred implementation costs is included as a cost of service fee revenue. To the extent implementation costs for non-technology infrastructure and development exceed the corresponding fees received, the excess costs are expensed as incurred.

Concentration of Business and Credit Risk

No product customer nor service fee client relationship represented more than 10% of the Company's consolidated total revenues during the three months ended March 31, 2017 or 2016. Amounts due from one client exceeded 10% of consolidated accounts receivable as of March 31, 2017 and December 31, 2016.

A summary of the nonaffiliated customer and client revenue concentrations as a percentage of product revenue and service fee revenue, respectively, is as follows:

	March 31,	
	2017	2016
Service Fee Revenue (as a percentage of total Service Fee Revenue):		
Client 1	9%	10%
Product Revenue (as a percentage of total Product Revenue):		
Customer 1	14%	7%
Customer 2	13%	15%
Customer 3	7%	14%

The Company currently anticipates that its product revenue from the customers identified above will decline during the next twelve months.

The Company has provided certain collateralized guarantees of its subsidiaries' financings and credit arrangements. These subsidiaries' ability to obtain financing on similar terms would be significantly impacted without these guarantees.

The Company has multiple arrangements with International Business Machines Corporation ("IBM") and Ricoh. These arrangements include Supplies Distributors' distributor agreements and certain of Supplies Distributors' working capital financing agreements. The majority of Supplies Distributors' revenue is generated by its sale of product purchased from Ricoh. Supplies Distributors also relies upon Ricoh's sales force and product demand generation activities and the discontinuance of such services would have a material impact upon Supplies Distributors' business. In addition, Supplies Distributors has product sales to IBM and Ricoh business affiliates.

As a result of certain operational restructuring of its business, 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 revenues and profitability for Supplies Distributors.

Operating Leases

The Company leases certain real estate for its warehouse, call center, sales, professional services and corporate offices, as well as certain equipment, under non-cancelable operating leases that expire at various dates through 2026. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other similar leases. The Company recognizes escalating lease payments on a straight-line basis over the term of each respective lease, and classifies with the difference between cash payments and rent expense recognized as deferred rent in the accompanying condensed consolidated balance sheets.

Property and Equipment

The Company's property and equipment held under capital leases totaled approximately $4.8 million and $5.4 million, net of accumulated amortization of approximately $5.9 million and $5.1 million, at March 31, 2017 and December 31, 2016, respectively.

Depreciation and amortization expense related to capital leases during the three months ended March 31, 2017 and 2016 was $0.8 million and $0.7 million, respectively.

Income Taxes

The Company records a tax provision primarily associated with state income taxes and the majority of its international operations. The Company has recorded a valuation allowance for the majority of its domestic net deferred tax assets, which are primarily related to net operating loss carryforwards and certain foreign deferred tax assets.

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately $0.6 million and $0.4 million in the three months ended March 31, 2017 and 2016, respectively. Income taxes of approximately $0.1 million were paid by the Company in the three months ended March 31, 2017 and 2016.

Impact of Recently Issued Accounting Standards

Pronouncements Recently Adopted

In March 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-09, "*Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*." The amendment in this ASU affects all organizations that issue share-based payment awards to employees and is intended to simplify several aspects of the accounting for these awards, including income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows, and allowing an accounting policy election to account for forfeitures as they occur. As permitted by ASU 2016-09, the Company elected to early adopt ASU 2016-09 in the quarter ended June 30, 2016 with an effective date of January 1, 2016. As a result of the adoption, the Company recognized previously unrecognized excess tax benefits of $1.9 million, which was offset by a valuation allowance in the same amount as the Company does not believe, on a more-likely-than-not basis, the net operating losses will be realized. The adoption of ASU 2016-09 resulted in a cumulative adjustment to equity, subject to a full valuation allowance, as of January 1, 2016.

In July 2015, the FASB issued ASU No. 2015-11, "*Simplifying the Measurement of Inventory,"* which modifies existing requirements regarding measuring inventory at the lower of cost or market. Under existing standards, the market amount requires consideration of replacement cost, net realizable value (NRV), and NRV less an approximately normal profit margin. The new ASU replaces market with NRV, defined as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This eliminates the need to determine and consider replacement cost or NRV less an approximately normal profit margin when measuring inventory. This standard is effective for the Company prospectively beginning January 1, 2017. Adoption of this ASU did not have a material impact on the Company's unaudited condensed consolidated financial statement.

In November 2015, the FASB issued ASU No. 2015-17, *"Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,"* which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The Company adopted this standard effective January 1, 2017, which did not have a material impact on the unaudited condensed consolidated financial statements.

Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers."* The new guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. The core principle behind ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering those goods and services. The standard creates a model that requires companies to exercise judgment when considering the terms of a contract and all relevant facts and circumstances. The new standard requires significantly expanded disclosures about revenue contract assets and liabilities and includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. The ASU allows two methods of adoption: (a) a full retrospective approach in which the standard is applied to all periods presented, or (b) a modified retrospective approach in which the standard is applied only to the most current period presented in the financial statements. In August 2015, the FASB deferred the effective date of this standards update to fiscal years beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. The Company currently anticipates adopting the standard using the modified retrospective method. The Company is assessing the new standard and analyzing the standard's impact on the Company's internal controls, accounting policies and financial statements and disclosures. As the Company is in the process of evaluating the impact of the standard, it has not yet quantified the impact of the adoption. However, based on the initial phase of its evaluation process, the Company has identified certain potential areas of impact. Application of the new standard requires that incremental costs of obtaining a contract (including sales commissions plus any associated fringe benefits) be recognized as an asset and expensed over the expected life of the arrangement, unless that life is less than one year. Currently the Company expenses certain of these contract acquisition costs as incurred. Additionally, the Company is assessing the expanded disclosure requirements of the new standard and whether the principal versus agent considerations would change how it presents certain revenues, primarily pass-through revenues. During 2017, the Company expects to continue its evaluation and implementation processes, which will include the quantification of impact and development of policies, to facilitate adoption during the quarter ended March 31, 2018.

In February 2016, the FASB issued ASU 2016-02, *"Leases."* The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the ASU's impact on its consolidated financial statements, but does expect the adoption to have a material impact to the balance sheet through the addition of an ROU asset and corresponding lease liability.

In August 2016, the FASB issued ASU 2016-15, "*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a consensus of the Emerging Issues Task Force"* ("ASU 2016-15"). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include - debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing this ASU's impact on its unaudited 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. The Company is currently evaluating the effect of ASU 2017-04.

3. *ACQUISITIONS*

Acquisitions have been recorded using the purchase method of accounting for business combinations.

Acquisition of Conexus

On June 8, 2016, PFSweb, Inc. acquired the outstanding capital stock of Conexus, an eCommerce system integrator that provides strategic consulting, system integration, and managed services for leading businesses and technology companies from its primary operations in Basingstoke, Hampshire (U.K.). The purchase price for the shares consisted of (i) an initial cash payment of £5,855,000 (approximately $8.5 million at June 8, 2016), subject to a post-closing adjustment based upon a May 31, 2016 balance sheet analysis, and (ii) up to an aggregate maximum of £1,445,000 (approximately $1.8 million at March 31, 2017), subject to Conexus achieving certain operational and financial targets during the post-closing period ending December 31, 2016 (the "Earn-out Payments"), subject to possible offsets for indemnification and other claims arising under the purchase agreement. Conexus did not achieve the operational and financial targets so the Company did not make any payments or record any liability as of March 31, 2017 applicable to the Earn-out Payments.

The transaction was accounted for using the purchase method of accounting for business combinations and, accordingly, the assets acquired and liabilities assumed, including an allocation of purchase price, and the results of operations of Conexus, including the amortization of acquired intangible assets, have been included in the Company's consolidated financial statements since the date of acquisition.

The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods. The Company is in the process of finalizing the purchase price allocation, including the finalization of a post-closing adjustment based upon a May 31, 2016 balance sheet analysis, and, accordingly, the following preliminary allocation of the purchase price is subject to adjustment. The following table summarizes the preliminary estimated fair value of the tangible and intangible assets acquired and liabilities assumed (in thousands):

Cash	$	156
Accounts receivable, net		1,451
Other receivables		887
Other assets		421
Identifiable intangibles		2,035
Total assets acquired		4,950
Total liabilities assumed		2,218
Net assets acquired		2,732
Goodwill		6,336
Total purchase price	$	9,068

Purchase price for Conexus is as follows (in thousands):

Aggregate cash payments	$	8,515
Performance-based contingent payments (based on estimated fair value at acquisition date)		553
Total purchase price	$	9,068

The excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed was allocated to goodwill. Total goodwill of $6.3 million, none of which is deductible for tax purposes, is not being amortized but is subject to an annual impairment test using a fair-value-based approach.

The Company is amortizing the identifiable intangible assets acquired using a pattern in which the economic benefit of the assets are expected to be realized by the Company over their estimated remaining useful lives. There are no residual values for any of the intangible assets subject to amortization acquired during the Conexus acquisition.

Estimated definite lived intangible assets acquired in the Conexus acquisition consist of (in thousands):

			March 31, 2017		December 31, 2016		Estimated
		Fair Value at Acquisition	Accumulated Amortization	Net Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life from Acquisition
Developed technology		$ 727	$ (290)	$ 437	$ (145)	$ 582	2.5 years
Customer relationships		1,308	(681)	627	(461)	847	4.5 years
Total definite lived identifiable intangible assets		$ 2,035	$ (971)	$ 1,064	$ (606)	$ 1,429	

Unaudited pro forma historical results of operations related to the Conexus acquisition have not been presented because they are not material to the Company's condensed consolidated statements of operations.

Acquisition of CrossView

On August 5, 2015, PFSweb, Inc. acquired substantially all of the assets, and assumed substantially all of the liabilities, in each case, other than certain specified assets and liabilities, of CrossView, Inc. ("CrossView") an ecommerce systems integrator and provider of a wide range of ecommerce services in the U.S. and Canada.

Consideration paid by the Company included an initial cash payment of $30.7 million and 553,223 unregistered shares of Company common stock (approximately $6.3 million in value as of the acquisition date). The initial cash payment was subject to adjustment based upon a post-closing balance sheet reconciliation. In addition, the purchase agreement provides for future earn-out payments ("CrossView Earn-out Payments") payable in 2016, 2017 and 2018 based on the achievement of certain 2015, 2016 and 2017 financial targets. The CrossView Earn-out Payments have no guaranteed minimum and an aggregate maximum of $18.0 million and are subject to possible offsets for indemnification and other claims. During 2016, the Company paid an aggregate of $7.9 million in settlement of the 2015 CrossView Earn-out Payments, of which, $1.6 million was paid by the issuance of 122,066 restricted shares of Company stock. The Company will pay 15% of any 2016 and 2017 earn-outs payments in restricted shares of Company common stock, based on its current market value at the time of issuance. As of March 31, 2017, the Company had recorded a total liability of $5.4 million applicable to the CrossView 2016 and 2017 Earn-out Payments, which is included in performance-based contingent payment liabilities in the condensed consolidated balance sheets. The estimated performance-based contingent payment liability increased from $4.1 million as of December 31, 2016 as a result of updated CrossView financial projections for the 2017 earn-out period.

Performance-Based Contingent Payment

The following table presents the change in the acquisition related performance-based contingent payments for the periods presented:

	2017	2016
As of January 1,	$ 4,083	$ 14,157
Change in aggregate balances due	1,347	(1,147)
As of March 31,	$ 5,430	$ 13,010

4. *GOODWILL AND IDENTIFIABLE INTANGIBLES, NET*

Goodwill acquired through acquisitions is recognized as part of the PFSweb segment. The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods.

The following table presents the gross carrying value and accumulated amortization for identifiable intangibles:

	March 31, 2017			
	Fair Value at Acquisition	Accumulated Amortization	Net Carrying Value	Estimated Useful Life from Acquisition
Trade names	$ 1,250	$ (898)	$ 352	2.25 - 2.5 years
Non-compete agreements	575	(380)	195	1- 3.5 years
Leasehold	45	(45)	—	2.5 years
Customer relationships	10,287	(5,723)	4,564	1.6 - 9 years
Developed technology	1,577	(836)	741	2.5-3 years
Other intangibles	493	(464)	29	9 years
Total definite lived identifiable intangible assets	$ 14,227	$ (8,346)	$ 5,881	

Definite Lived Intangible Asset Amortization

The Company recognized $0.8 million of amortization expense applicable to acquisitions related definite lived identifiable intangible assets in selling, general and administrative expenses in each of the three months ended March 31, 2017 and 2016. The estimated amortization expense for each of the next five years is as follows (in thousands):

Remaining 2017	$ 2,280
2018	1,656
2019	740
2020	521
2021	282
2022	217

5. ***NET LOSS PER COMMON SHARE***

Basic and diluted net loss per common share are computed by dividing net loss by the weighted-average number of common shares outstanding for the reporting period.

The following equity awards have been excluded from the calculation of diluted net loss per share as their effect would be anti-dilutive as of March 31, 2017 and 2016 (shares in thousands):

	As of March 31,	
	2017	2016
Stock options	1,228	1,238
Performance shares	138	614
Deferred stock units	133	82
Total anti-dilutive stock options, performance shares and deferred stock units	1,499	1,934

6. ***STOCK AND STOCK OPTIONS***

The Company has an Employee Stock and Incentive Plan, as amended and restated (the “Employee Plan”). The Plan provides for the granting of incentive awards to directors, executive management, key employees, and outside consultants of the Company in a variety of forms of equity-based incentive compensation, such as the award of an option, stock appreciation right, restricted stock award, restricted stock unit, deferred stock unit, among other stock-based awards. The Company uses newly issued shares of common stock to satisfy awards under the Plan.

Total stock-based compensation expense was $0.5 million and $0.8 million for the three months ended March 31, 2017 and 2016, respectively, and was included as a component of selling, general and administrative expenses in the unaudited condensed consolidated statements of operations.

On March 23, 2015, the Company issued Performance-Based Share Awards (as such terms are defined in the Employee Plan) to the Company's executives and senior management. Under the terms of these 2015 awards, the number of performance shares that each such individual received was subject to, and calculated by reference to, the achievement by the Company of a performance goal measured by a range of targeted financial performance, as defined, for 2015. Based on the Company's 2015 financial results, the Company issued an aggregate of approximately 283,100 Performance Shares ("2015 Performance Shares"). The 2015 Performance Shares are subject to four year annual vesting based upon continued employment and the achievement of a defined annual financial target, and for certain of the performance shares, the comparative performance (on an annual and cumulative basis) of the Company's common stock on NASDAQ compared to the Russell Micro Cap Index. The actual number of shares issued on each annual vesting date could range from zero to 100%, depending on the satisfaction of the vesting criteria. Shares that do not vest on a scheduled vesting date due to a failure to satisfy vesting criteria are forfeited and do not vest in future periods. Based upon achievement of the respective vesting criteria, 70,800 of the 2015 Performance Shares vested as of December 31, 2016. As of December 31, 2016, 87,400 of the 2015 Performance Shares did not vest and were forfeited.

In March 2016, pursuant to the Employee Plan, the Company issued additional Restricted Stock Units and 2016 Performance Share Awards (as such terms are defined in the Employee Plan) to the Company's executive officers and certain senior management under which the number of performance shares to be issued was subject to, and calculated by reference to, the achievement by the Company of a performance goal measured by a range of targeted financial performance, as defined, for 2016 as well as, for certain of the Restricted Stock Units, individual performance goals, as defined. Based on the Company's 2016 financial performance, no performance shares were awarded under the 2016 Restricted Stock Units and 2016 Performance Based Share Awards.

On March 31, 2017, the Company issued Restricted Stock Units and Performance-Based Share Awards (as such terms are defined in the Employee Plan) to the Company's executives and senior management pursuant to which such employees are eligible to receive future grants of shares of the Company's stock subject to various vesting and/or performance criteria, including the achievement by the Company of certain performance goals measured by defined ranges of targeted financial performance for 2017 and/or future years, the achievement of certain defined total stockholder return targets using the companies in the Russell Micro Cap Index as a comparative group for 2017 and/or future years and/or continued employment through one to three year vesting dates. Assuming satisfaction of all vesting conditions and achievement of the highest performance targets, the aggregate maximum number of shares that could be awarded under these 2017 awards is approximately 697,000. Shares that do not vest on a scheduled vesting date due to a failure to satisfy vesting or performance criteria are forfeited and do not vest in future periods.

7. ***VENDOR FINANCING***

Supplies Distributors has a short-term credit facility with IBM Credit LLC ("IBM Credit") to finance its purchase and distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to $13.0 million. 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, the Company has classified the outstanding amounts under this facility, which were $7.0 million and $7.3 million as of March 31, 2017 and December 31, 2016, respectively, as accounts payable in the condensed consolidated balance sheets. As of March 31, 2017, Supplies Distributors had $0.1 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. The credit facility also contains financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $2.5 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (4.50% as of March 31, 2017 and 4.25% as of December 31, 2016). The facility also includes a monthly service fee. As of and March 31, 2017, the Company was in compliance with all financial covenants.

8. *DEBT AND CAPITAL LEASE OBLIGATIONS*

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

	March 31, 2017	December 31, 2016
U.S. Credit Agreement		
Revolver	$ 14,500	$ 20,825
Term loan	28,875	29,438
Equipment loan	4,684	3,596
Debt issuance costs	(488)	(525)
Master lease agreements	5,398	6,277
Other	46	88
Total	53,015	59,699
Less current portion of long-term debt	6,662	7,300
Long-term debt, less current portion	$ 46,353	$ 52,399

U.S. Credit Agreement

In August 2015, PFSweb, Inc. and its U.S. subsidiaries entered into a credit agreement ("Credit Agreement") with Regions Bank, as agent for itself and one or more future lenders including Bank of America N.A. and HSBC Bank USA, National Association (the "Lenders"). Under the Credit Agreement, and subject to the terms set forth therein, the Lenders have agreed to provide PFS with a revolving loan facility for up to $32.5 million and a term loan facility for up to $30 million through August 5, 2020. Subject to the terms of the Credit Agreement, PFS has the ability to increase the total loan facilities to $75 million. Availability under the revolving loan facility may not exceed a borrowing base of eligible accounts receivable (as defined). As of March 31, 2017, the Company had $7.4 million of available credit under the revolving loan facility. Advances under the revolving loan portion of the Credit Agreement are due and payable on August 5, 2020. Term loan advances amortize during the five year term of the Credit Agreement based upon scheduled percentage payments with the then remaining outstanding balance (potentially up to 65% of the amount borrowed) due on August 5, 2020. Borrowings under the Credit Agreement accrue interest at a variable rate based on prime rate or Libor, plus an applicable margin. As of March 31, 2017 and December 31, 2016, the weighted average interest rate on the revolving loan facility was 3.38% and 3.79%, respectively. As of March 31, 2017 and December 31, 2016, the weighted average interest rate on the term loan facility was 3.38% and 2.93%, respectively. In connection with the Credit Agreement, the Company paid $0.7 million of fees, which are being amortized through the life of the Credit Agreement and are reflected as a net reduction in debt. The Credit Agreement is secured by a lien on substantially all of the assets of Company and its U.S. subsidiaries and a pledge of 65% of the shares of certain of the Company's foreign subsidiaries. The Credit Agreement 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. In June 2016, PFSweb also entered into a Master Agreement with Regions Bank to provide equipment loans financing for certain capital expenditures.

Debt Covenants

To the extent the Company or any of its subsidiaries fail to comply with its covenants applicable to its debt or vendor financing obligations, including the periodic financial covenant requirements, such as profitability and cash flow, and required level of shareholders' equity or net worth (as defined), the Company would be required to obtain a waiver from the lender or the lender would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral and enforcement of payment under the Company parent guarantee. Any acceleration of the repayment of the credit facilities may have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. As of and for three months ended March 31, 2017, the Company was in compliance with all debt covenants.

Master Lease Agreements

The Company has 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.

9. ***SEGMENT INFORMATION***

The Company is currently organized into two primary operating segments, which generally align with its corporate organization structure. In the first segment, PFSweb is a global provider of various infrastructure, technology, and digital agency solutions and operates as a service fee business. In the second operating segment ("Business and Retail Connect"), subsidiaries of the Company purchase inventory from clients and resell the inventory to client customers. In this segment, the Company recognizes product revenue when it operates as a principal in the arrangement and service fee revenue when it operates as an agent.

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Revenues (in thousands):		
PFSweb	$ 66,043	$ 60,988
Business and Retail Connect	16,884	17,944
Eliminations	(4,159)	(3,852)
	$ 78,768	$ 75,080
Income (loss) from operations (in thousands):		
PFSweb	$ (3,977)	$ (297)
Business and Retail Connect	533	495
	$ (3,444)	$ 198
Depreciation and amortization (in thousands):		
PFSweb	$ 3,903	$ 3,597
Business and Retail Connect	4	6
	$ 3,907	$ 3,603
Capital expenditures (in thousands):		
PFSweb	$ 666	$ 1,367
Business and Retail Connect	—	—
	$ 666	$ 1,367

	March 31, 2017	December 31, 2016
Assets (in thousands):		
PFSweb	$ 146,711	$ 167,152
Business and Retail Connect	44,991	55,559
Eliminations	(10,986)	(11,375)
	$ 180,716	$ 211,336

10. ***COMMITMENTS AND CONTINGENCIES***

The Company leases facilities, warehouse and office space and transportation and other equipment under operating leases expiring in various years through 2026. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced by other similar leases. The Company's facility leases generally contain one or more renewal options.

The Company received municipal tax abatements in certain locations. In prior years, the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to the Company's tax abatement. The Company disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against the Company and the timing of the related payments has not been finalized. As of March 31, 2017, the Company believes it has adequately accrued for the expected assessment.

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

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

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target," "project" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to the Risk Factors set forth above or elsewhere in this Report on Form 10-K for the year ended December 31, 2016, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our reliance on the fees generated by the transaction volume, product sales and technology and agency projects and support of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependency upon our agreements with International Business Machines Corporation ("IBM") and Ricoh Company Limited and Ricoh USA, Inc., a strategic business unit within the Ricoh Family Group of Companies, (collectively hereafter referred to as "Ricoh");
- our dependency upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending client and customer contracts;
- the impact of strategic alliances and acquisitions;
- trends in e-commerce, outsourcing, government regulation, both foreign and domestic, and the market for our services;
- whether we can continue and manage growth;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- our reliance on third-party providers and other subcontracted services;
- the unknown effects of possible system failures and rapid changes in technology;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency upon key personnel;
- our ability to retain seasonal and temporary workers;
- the impact of new accounting standards and changes in existing accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing;
- our ability, and the ability of our subsidiaries, to borrow under current financing arrangements and maintain compliance with debt covenants;
- our relationship with, and our guarantees of, certain of the liabilities and indebtedness of our subsidiaries; and
- taxation on the sale of our products and provision of our services.

We have based these statements on our current expectations about future events. 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 as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expected or forecasted in such forward-looking statements. We undertake 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.

Key Transactions and Events

During 2016, we were impacted by the following key transactions and events that also affect comparability of our results to prior periods and are discussed further in our Form 10-K for the year ended December 31, 2016.

- Acquired the outstanding capital stock of Conexus Limited ("Conexus") on June 8, 2016. The results of operations of Conexus have been included in our condensed consolidated financial statements since the acquisition date.
- Implemented fulfillment solutions for three new large clients, resulting in incremental operating expenses in excess of associated revenues.

Overview

We are a global provider of omni-channel commerce solutions. Comprised of a broad range of technology, critical infrastructure and professional services, we provide our clients with best-of-breed capabilities offered as a complete end-to-end solution or on an à la carte basis. We provide these solutions and services to major brand name companies and others seeking to optimize their supply chain and to enhance their online and traditional business channels and initiatives. We derive our revenues from providing a broad range of services using three different seller services financial models: 1) the Service Fee model, 2) the Agent (or Flash) model and 3) the Retail model.

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 derive our service fee revenues from a broad range of service offerings that include digital agency and marketing, eCommerce technologies, system integration, order management, customer care, logistics and fulfillment, financial management and professional consulting. 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 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. 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 consolidated statement of operations.

Retail Model. Our Retail model allows us to purchase inventory from the client. In this model, we place the initial and replenishment purchase orders with the client and take ownership of the product upon 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 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, although we have one client still utilizing 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.

In general, we provide the Service Fee model through all of our subsidiaries, the Agent (or Flash) model through our PFS and Supplies Distributors subsidiaries and the Retail model through our Supplies Distributors subsidiary.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our Service Fee and Agent models is driven by two main elements: new client relationships and organic growth from existing clients. 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, which, by nature, require a longer duration to close but also have the potential to be higher quality and longer duration engagements. Through recent acquisitions, we have expanded our service offering capabilities and added new client relationships, which we currently expect to enhance our growth opportunities.

Currently, we are targeting growth within our Retail model to be through relationships with clients under which we can record service fee revenue (product revenue net of cost of product revenue) in our consolidated statement of operations as opposed to product revenue as generated in the Agent or Flash model above. 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.

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, international 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 Supplies Distributors business and the Retail model, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses and acquisition related 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 our financing of both current operations and our targeted growth.

Results of Operations for the Interim Periods Ended March 31, 2017 and 2016

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 revenue (in millions):

	For the Three Months Ended March 31,			% of Net Revenues	
	2017	2016	Change	2017	2016
Revenues					
Service fee revenue	$ 57.3	$ 49.3	$ 8.0	72.7%	65.7%
Product revenue, net	11.3	13.6	(2.3)	14.4%	18.1%
Pass-through revenue	10.2	12.2	(2.0)	12.9%	16.2%
Total net revenues	78.8	75.1	3.7	100.0%	100.0%
Cost of Revenues					
Cost of service fee revenue (1)	39.6	32.3	7.3	69.1%	65.4%
Cost of product revenue (2)	10.7	12.9	(2.2)	94.8%	94.8%
Pass-through cost of revenue (3)	10.2	12.2	(2.0)	100.0%	100.0%
Total cost of revenues	60.5	57.4	3.1	76.8%	76.4%
Service fee gross profit	17.7	17.0	0.7	30.9%	34.6%
Product revenue gross profit	0.6	0.7	(0.1)	5.2%	5.2%
Pass-through gross profit	—	—	—	—	—
Total gross profit	18.3	17.7	0.6	23.2%	23.6%
Selling General and Administrative expenses	21.7	17.6	4.1	27.6%	23.4%
Loss from operations	(3.4)	0.1	(3.5)	(0.0)	0.1%
Interest expense, net	0.7	0.4	0.3	0.8%	0.6%
Loss before income taxes	(4.1)	(0.3)	(3.8)	(5.2)%	(0.4)%
Income tax expense, net	0.8	0.5	0.3	1.0%	0.6%
Net loss	$ (4.9)	$ (0.8)	$ (4.1)	(6.2)%	(1.0)%

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

Service Fee Revenue. The increase in service fee revenue for the three months ended March 31, 2017, as compared to the same period of the prior year, was primarily due to the impact of expanded and new client relationships, including service fee revenues generated by our acquired subsidiary Conexus in June 2016, partially offset by the conclusion or reduction of operations of several client programs that were in effect during the three months ended March 31, 2016.

The change in service fee revenue, excluding pass-through revenue, is shown below (millions):

	Three Months
Period ended March 31, 2016	$ 49.3
New service contract relationships	10.9
Change in existing client service fees	(1.8)
Terminated client relationships not included in 2017 revenue	(1.1)
Period ended March 31, 2017	$ 57.3

When considering client relationships, we define an existing client to be a client from whom we earned revenue in both the current and prior period; we define a new client to be a client from whom we only earned revenue in the current period; and we define a terminated client as a client from whom we only earned revenue in the prior period. The new service contract relationships include an aggregate of approximately $1.2 million of revenue applicable to Conexus in the three months ended March 31, 2017. Based on current client projections, we expect the reduction in revenue from terminated client programs to be offset by service fee revenue generated in 2017 by new or expanded client opportunities. For calendar year 2017, we are currently targeting an increase in service fee revenues of approximately 5-10% as compared to the calendar year 2016 including the impact of a full year of operations from our Conexus entity versus partial year in 2016.

Product Revenue, net. Product revenue was $11.3 million for the three months ended March 31, 2017, which represents a decrease of $2.3 million, or 16.8% as compared to the same quarter of the prior year. This reduction in revenue is primarily due to the operational restructuring by Ricoh of its business, including discontinuance of certain product lines, which has resulted, and is expected to continue to result, in lower product revenue from the sale of Ricoh products. We currently expect product revenue to continue to decline and be approximately $38 million to $45 million for the calendar year 2017.

Cost of Service Fee Revenue. Service fee gross profit as a percentage of service fees decreased to 30.9% in three month period ended March 31, 2017 from 34.6% in the same period of 2016. The decrease was due to the impact of several large fulfillment clients that were implemented subsequent to the March 2016 quarter which operated at lower than targeted margin performance. Through various initiatives, the Company is targeting to improve the financial performance of its omni-channel operations activity while also continuing to focus on higher margin professional services engagements.

We target to earn an overall average gross profit on our service fee activity of 27-32% on existing and new service fee contracts, but we have accepted, and may continue to accept, lower gross margin percentages on certain contracts depending on contract scope and other factors, including projected volumes. We are focused on continuing to increase our level of higher margin service fee activity, including our professional and technology services, to help offset other lower margin activities. In addition, we are targeting to improve the profitability results of the remaining large, new fulfillment solutions implemented in 2016. Based on our currently projected continued growth in the professional services area of our business, including the benefit of our acquisitions, we are projecting our gross profit for 2017 to be in the middle to high end of the above targeted range. Our service fee gross profit will continue to be impacted by the relative proportion of our infrastructure related services versus our professional services activity, as well as project work.

Cost of Product Revenue. Cost of product revenue decreased by $2.3 million, or 17.0%, to $10.7 million in the three months ended March 31, 2017 which resulted in a gross profit margin of $0.6 million, or 5.2% of product revenue, for the three months ended March 31, 2017, compared to $0.7 million gross profit margin, or 5.2% of product revenue, for the comparable 2016 period. We currently expect our product revenue gross profit margin to be approximately 5% for calendar year 2017.

Selling, General and Administrative ("SG&A") Expenses. SG&A expenses for the three months ended March 31, 2017 and 2016 were $21.7 million and $17.6 million, respectively. As a percentage of total net revenues, SG&A expenses were 27.6% in the three months ended March 31, 2017 and 23.4% in the corresponding prior year period. The three months ended March 31, 2017 includes approximately $0.8 million applicable to our Conexus acquisition (including $0.2 million of amortization of acquisition related intangible assets), which was not yet acquired as of March 31, 2016. Acquisition and restructuring related expenses were $2.7 million in the three months ended March 31, 2017 as compared to a $0.8 million benefit in the three months ended March 31, 2016. The acquisition and restructuring related charges include the impact of revised estimates of certain performance-based contingent payments, which in the three months ended March 31, 2017 was a $1.3 million expense based on our current 2017 projected results for CrossView, while the three months ended March 31, 2016 reflected a $1.0 million expense reduction based on our then projected results for Moda and CrossView. The acquisition and restructuring related expenses for the three months ended March 31, 2017 also include $1.3 million of certain incremental personnel termination related expenses. Excluding the acquisition and restructuring related activity and amortization of acquired identifiable intangibles assets in the three months ended March 31, 2017 and 2016, SG&A expenses were 24.0% and 23.3% of total revenues in the three months ended March 31, 2017 and 2016, respectively.

We currently expect our SG&A expenses will continue to increase in 2017, as compared to 2016 as we include a full year of expenses for Conexus, incur a full year of amortization for identifiable intangible assets acquired in our Conexus acquisition, incur incremental personnel related costs applicable to our professional services business activity and incentive based cash and stock compensation and incur additional expenditures related to our sales and marketing activities and facility costs. We expect these increases to be partially offset by cost reduction efforts in other areas as we continue to focus on overall cost control. Additionally, future adjustments in fair value estimates of our performance-based contingent payments, if any, applicable to our CrossView acquisition will continue to be reflected as increases or decreases in SG&A expense.

Income Taxes. We recorded a tax provision associated primarily with state income taxes and the majority of our international operations. 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. We also recorded a deferred tax provision associated with the tax amortization of goodwill related to our CrossView acquisition. We expect we will continue to record an income tax provision associated with state income taxes and our foreign operations, as well as the deferred tax provision for tax amortization of goodwill.

Liquidity and Capital Resources

In addition to cash income from operations before working capital changes, our operating cash flows are impacted by various factors. For each of the periods ended March 31, 2017 and 2016, our cash flows from operations were impacted primarily by decreases in our accounts payable, deferred revenue, accrued expenses and other liabilities balances in part due to decreased business activity and timing of payments to clients of customer collections as a result of reduced business volumes following the seasonally higher fourth quarter and a reduction in product revenue. These cash outflows were partially offset by a decrease in accounts receivable primarily due to increased business activity and timing of client receipts applicable to service fee activity as compared to our seasonally high fourth quarter.

In each of the periods ended March 31, 2017 and 2016, our cash used in investing activities included cash payments for the purchase of capital expenditures, exclusive of $0.8 million in each period of property and equipment acquired under debt and capital lease financing, which consisted primarily of capitalized software costs and equipment purchases.

Aggregate net cash payments on debt were $8.4 million in the three months ended March 31, 2017 compared to aggregate net cash proceeds from debt of $2.2 million during the three months ended March 31, 2016.

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 $9 million to $12 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 capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financial results necessary to support such investments.

During the three months ended March 31, 2017 our working capital decreased to $12.2 million from $18.6 million at December 31, 2016, primarily due to payments of long-term financing under the Company’s senior bank facility and cash used to support certain purchases of property and equipment.

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 March 31, 2017, 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. Other than performance-based contingent payments applicable to our acquisitions, and our capital 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.

We receive 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 March 31, 2017, we believe we have adequately accrued for the expected assessment.

Supplies Distributors Financing

To finance its distribution of Ricoh products in the U.S., Supplies Distributors has a short-term credit facility with IBM Credit LLC ("IBM Credit") that provides financing for eligible inventory and certain receivables for up to $13.0 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. The Company has direct vendor credit terms with Ricoh to finance Supplies Distributors European subsidiary's inventory purchases.

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 $2.5 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.

PFS Financing

We have a credit agreement ("Credit Agreement") with Regions Bank, as agent for itself, Bank of America N.A., HSBC Bank USA, National Association and one or more future lenders (the "Lenders"). Under this Credit Agreement, and subject to the terms set forth therein, the Lenders have agreed to provide a revolving loan facility for up to $32.5 million and a term loan facility for up to $30 million. Subject to the terms of the Credit Agreement, we have the ability to increase the total loan facilities to $75 million. Availability under the revolving loan facility, which was approximately $7.4 million as of March 31, 2017, may not exceed a borrowing base of eligible accounts receivable (as defined). Advances under the Credit Agreement accrue interest at a variable rate, plus an applicable margin, and have a five year maturity, with scheduled amortization payments for term loan advances. The Credit Agreement is secured by a lien on substantially all of the assets of the Company and its U.S. subsidiaries and a pledge of 65% of the shares of certain of the Company's foreign subsidiaries. The Credit Agreement contains cross default provisions, various restrictions upon our 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 fixed charge ratio and a maximum leverage ratio.

Acquisition

On June 8, 2016, PFSweb, Inc. purchased all of the outstanding shares of Conexus, Inc. ("Conexus"), an eCommerce system integrator that provides strategic consulting, system integration, and managed services for leading businesses and technology companies. Conexus maintains primary operations in Basingstoke, Hampshire (U.K.). We paid an aggregate cash payment at closing of £5,855,000 (approximately $8.5 million as of June 8, 2016), subject to a post-closing adjustment to be based upon a May 31, 2016 balance sheet.

Seasonality

The seasonality of our service fee business is dependent upon the seasonality of our clients' business and sales of their products. Accordingly, we must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix and their current business volumes, our run rate service fee business activity will generally be highest during the quarter ended December 31. We believe our historical revenue pattern makes it difficult to predict the effect of seasonality on our future revenues and results of operations.

We believe results of operations for a quarterly period may not be indicative of the results for any other quarter or for the full year.

Inflation

Management believes that inflation has not had a material effect on our operations.

Critical Accounting Policies

A description of our critical accounting policies is included in Note 2 of the consolidated financial statements in our December 31, 2016 Annual Report on Form 10-K and Note 2 of this report.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). As of March 31, 2017, 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 period that ended on March 31, 2017, 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

In addition to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the Securities and Exchange Commission, our business, financial condition and operating results could be adversely affected by any or all of the following factors.

Risks Related to Our Business

We operate with significant levels of indebtedness and are required to comply with certain financial and non-financial covenants; and we have guaranteed certain indebtedness and obligations of our subsidiaries.

As of March 31, 2017, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of Ricoh product inventory, was approximately $60.0 million. We cannot provide assurance that our credit facilities will be renewed by the lending parties. Additionally, these credit facilities include both financial and non-financial covenants, many of which also include cross default provisions applicable to other agreements. These covenants also restrict our ability to transfer funds among our various subsidiaries, which may adversely affect the ability of our subsidiaries to operate their businesses or comply with their respective loan covenants. We cannot provide assurance that we will be able to maintain compliance with these covenants. A non-renewal, default under or acceleration of any of our credit facilities may have a material adverse impact upon our business and financial condition. We have guaranteed most of the indebtedness of Supplies Distributors. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors by its lenders to the extent Supplies Distributors is unable to do so.

Our business is subject to the risk of customer and supplier concentration.

Most of our client agreements state a contract expiration date, but many also include an early termination clause permitting the client to terminate the contract for convenience prior to its stated expiration date or to reduce the scope of services or delay the commencement of services to be provided under the contract. Termination, reduction, or delay of our services under a contract could result from factors unrelated to our work product or the progress of the project, such as factors related to business or financial conditions of the client, changes in client strategies or the domestic or global economy generally. The early termination, reduction or substantial delay of services with any significant client, or nonrenewal of any significant client contract, or the nonpayment of a material amount of our service fees by a significant client, could have a material adverse effect upon our business, results of operation and financial condition.

The majority of our Supplies Distributors product revenue is generated by sales of product purchased under distributor agreements with Ricoh. These agreements are terminable at will and no assurance can be given that Ricoh will continue the distributor agreements with Supplies Distributors. Supplies Distributors does not have its own sales force and relies upon Ricoh's sales force and product demand generation activities for its sale of Ricoh product. As a result of certain operational restructuring of its business and its discontinuance of certain product lines, 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 revenues and profitability for Supplies Distributors. Further reduction in the Ricoh business may have a material adverse effect on Supplies Distributors' business and may adversely affect our overall financial condition.

Sales by Supplies Distributors three customers accounted for approximately 34% of Supplies Distributors' total product revenue for the three months ended March 31, 2017 and 5% of consolidated net revenue. The loss of one or more of such customers, or non-payment of any material amount by these or any other customer, may have a material adverse effect upon Supplies Distributors' business, results of operations and financial condition.

Risks Related to Our Stock

Our stock price could decline if a significant number of shares become available for sale.

As of March 31, 2017, we have issued an aggregate of (i) 1,228,000 stock options outstanding to employees, directors and others with a weighted average exercise price of $7.55 per share (ii) 126,000 performance shares of common stock that may vest, subject to satisfaction of vesting conditions, over the next one to three years, (iii) 13,000 restricted stock units that may vest subject to satisfaction of vesting conditions, over the next two years, and (iv) 133,000 deferred stock units to the non-employee members of our

Board of Directors under which the underlying shares will be issued upon the termination of service of the holder. The current and future issuance and/or vesting of shares of our common stock under the foregoing stock awards, performance shares and deferred stock units, sales of substantial amounts of common stock in the public market following the issuance and/or vesting of such shares, and/or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosure

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1(1)	Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.1(2)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.2(4)	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3(5)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.4(7)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2(1)	Amended and Restated By-Laws
3.2.1(3)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.2(6)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.3(7)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
4.1 (8)	Amendment No. 5 to Rights Agreement, dated as of June 18, 2015 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.
4.1 (9)	Amendment No. 6 to Rights Agreement, dated as of July 30, 2015 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.
10.1*	Expansion Agreement and Amendment to Lease agreement dated June 20, 2016 by and between 2145312 Ontario, Inc. and Priority Fulfillment Services, Inc.
10.2*	Settlement and Release Agreement between Priority Fulfillment Services, Inc. and Cindy Almond
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
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
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
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.

(1) Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657).
(2) Incorporated by reference from PFSweb, Inc. Form 10-K for the fiscal year ended December, 31, 2005 filed on March 31, 2006.
(3) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on November 13, 2007.
(4) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 2, 2008.
(5) Incorporated by reference from PFSweb, Inc. Form 10-Q filed on August 14, 2009.
(6) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 2, 2010.
(7) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 18, 2013.

(8) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 19, 2015.
(9) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 30, 2015.
* 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: May 10, 2017

PFSweb, Inc.

By: /s/ Thomas J. Madden
Thomas J. Madden
Chief Financial Officer
Chief Accounting Officer
Executive Vice President

Exhibit 10.1

March 23, 2017

Priority Fulfilment Services
C/O Mr. Alan Miller
505 Millennium Drive
Allen, TX
75013

RE: Priority Fulfilment Services
1 Steelcase Road West, Markham, ON
Expansion Agreement

Dear Alan,

Further to our discussions on the above mentioned site, we are pleased to present the following Expansion Agreement to you. This Expansion Agreement will serve to amend the Agreement to Lease dated October 8th 2014 and subsequent Lease Renewal Agreements dated March 11th 2015 and June 20th 2016 between Priority Fulfilment Services of Canada, Inc. (as "Tenant") and 2145312 Ontario Inc. (as "Landlord").

Tenant: Priority Fulfilment Services of Canada, Inc.

Landlord: 2145312 Ontario Inc.

Premises: Currently approximately 48,000 square feet as hatched on the attached Schedule A.

Expansion Premises: Approximately 10,000 square feet as cross hatched on the attached Schedule A.

Total Premises: Approximately 58,000 square feet

Term of the Expansion Premises: Commencing May 1st 2017 and expiring August 12th, 2018 to coincide with the expiry of the existing Term of the Premises.

Minimum Rent on Expansion Premises: $3.50 per square foot per annum

Additional Rent on Expansion Premises: The Tenant shall pay all Additional Rent and other charges and expenses payable pursuant to the Agreement to Lease and any Renewal Agreements currently estimated at $4.25 per square foot on the Expansion Premises at the times and manner provided in the Agreement to Lease and any Renewal Agreements.

Use: AS per existing lease.

Landlord's Work: The Tenant acknowledges and agrees that it has examined the Expansion Premises and accepts them in their present state and condition "AS IS" subject to the removal of any of the existing tenant's fixtures, chattels or inventory.

Tenant's Work: All work required to ready the Leased Premises for the Tenant's use.

Insurance:	The Tenant shall take out and keep in force such additional insurance coverage on the Expansion Premises as may be reasonably required by the Landlord in accordance with the terms of the Agreement to Lease.
Landlord's Condition:	This Expansion Agreement shall be conditional in favour of the Landlord on the Landlord obtaining vacant possession of the Expansion Premises on terms satisfactory to itself in its sole and absolute discretion by April 30, 2017. The Tenant will be notified in writing with Landlord's waiver or non-waiver of this Condition.

All other terms and conditions of the Agreement to Lease and subsequent Lease Renewal Agreements shall remain the same and in full force and effect and shall now apply equally to the Expansion Premises.

Once a signed copy of this Expansion Agreement is returned to the Landlord, final approval from its executive is required. Landlord's executive may accept or reject this Expansion Agreement in their sole discretion. If accepted by the Landlord, then this Expansion Agreement shall form a binding agreement. If rejected by the Landlord, then this Expansion Agreement shall be null and void and have no further force or effect.

Yours truly,

Liberty Development Corporation

Ryan Mitz
Vice President, Commercial Leasing and Sales

I/We confirm our agreement with the above terms and conditions.

DATED this __23rd___day of ____March____, 2017

TENANT: **Priority Fulfilment Services of Canada, Inc.**

Per:________/s/ Zach Thomann_________________________
Name: Zach Thomann
Title: SVP Operations

I have authority to bind the Tenant

DATED this _29th___day of _March_______, 2017

LANDLORD: **2145312 Ontario Inc.**

Per:______/s/ Latif Fazel__________________________________
Name: /s/ Latif Fazel
Title: ASO

I have authority to bind the Landlord

Schedules forming a part hereof: Schedule "A" – Building Plan

Exhibit 10.2

PRIORITY FULFILLMENT SERVICES, INC.

Ms. Cynthia Almond
4716 Eva Place
Plano, TX 75093

Re: Separation Agreement and General Release

Dear Cindy:

This letter agreement (the "**Agreement**") shall confirm that your employment with Priority Fulfillment Services, Inc., together with its parent organization, PFSweb, Inc. and the subsidiaries and affiliates of PFSweb, Inc. (collectively, the "**Company**"), has been terminated as of April 28, 2017 (the "**Termination Date**"). This Agreement sets forth our mutual understanding as to the terms and conditions regarding the termination of your employment with the Company.

1. As of the Termination Date, you will not be required to perform any further services on behalf of the Company as an employee, and no further compensation will be paid by the Company to you or on your behalf, except as set forth in this Agreement.

2. (a) The Company shall pay you all unpaid wages, bonus compensation, and expense reimbursements. All legally mandated withholdings shall be deducted from any wage or bonus payments. The foregoing payment of unpaid wages, bonus compensation, and expense reimbursements will be made to you within six (6) calendar days of the Termination Date, irrespective of whether or not you execute this Agreement.

(b) Following the Termination Date, the Company shall continue payment of your base salary at your annual base rate of Three Hundred and Ten Thousand Dollars and 00/100 ($310,000.00) for a period of twenty-four (24) months (each a "**Salary Continuation Payment**" and, collectively, the "**Salary Continuation Payments**"). The Salary Continuation Payments will be made in accordance with the Company's normal payroll schedule. In accordance with applicable law, the Company will deduct all statutory or required withholdings from the Salary Continuation Payments.

(c) All of your medical, dental and insurance benefits will continue for a period of twenty-four (24) months following the Termination Date, or such earlier time as you are eligible for medical benefits through new employment or a consulting agreement, under the same terms as immediately prior to the Termination Date. The Company will continue to pay for the insurance premium payments (the "**Insurance Premium Payments**") upon the same terms as in effect immediately prior to the Termination Date. As of the last day of the twenty-fourth (24th) month following the Termination Date, all group medical, dental and/or prescription drug coverage benefits provided to you and/or your dependents under the Company's group health plans will be terminated. You and your dependents, if any, currently enrolled in the Company's group health insurance plans will be entitled to continuation coverage under the Consolidated

Omnibus Budget and Reconciliation Act ("**COBRA**"). Notice of your right to elect continuation coverage pursuant to COBRA will be sent to you.

(d) For a period of twenty-four (24) months following the Termination Date you will continue to receive the following benefits: an auto allowance of $1,000 per month, reimbursement of auto-related expenses in accordance with Company policy, continued use of your cell phone (subject to Section 12(a) below), reimbursement for a $750,000 life insurance policy, coverage for $20,000 group life and AD&D policies, coverage for long-term disability. You will also receive a single lump sum payment of $5,000.00 in lieu of the corresponding Salary Continuation Payments employer match for your 401(k) plan. If you become employed by another employer within twenty-four (24) months of the Termination Date and receive benefits through that employer, the Company will continue paying the Insurance Premium Payments and the benefits described in this Paragraph 2(d) only to the extent that your new employer does not provide you with similar or equivalent benefits.

(e) Upon the effective date of this Agreement, 1,250 Restricted Stock Units will vest in accordance with the terms of your March 2015 Restricted Stock Unit Agreement.

(f) Following the Termination Date, all unvested Options, as defined in the PFSweb 2005 Employee Stock and Incentive Plan (the "**Plan**"), currently held by you shall vest and shall be exercisable for the original exercise period as set forth in the attached schedule.

3. (a) Following the Termination Date, and provided that you execute and do not revoke this Agreement pursuant to Paragraph 16(c) below, the Company shall issue to you 18,085 shares of PFSweb, Inc. common stock as a one-time "Other Stock Based Award" under the Plan (the "**Severance Consideration**").

(b) You acknowledge that the Severance Consideration set forth above is more than that to which you are now or in the future may be entitled from the Company, and is being provided to you as consideration for your acceptance and execution of this Agreement and as a condition of your providing the Release set forth in Paragraphs 6 and 15 below.

4. You acknowledge and agree that, except as set forth in Sections 2(e) and (f) above, all previously granted awards under the Plan, if any, are terminated and forfeited, and that the Change in Control Severance Agreement between you and PFSweb, Inc. dated January 17, 2001 (the "**CIC Agreement**") is terminated, except that, effective upon the consummation of a "Change in Control" (as defined in the CIC Agreement) occurring after the date hereof, all then remaining unpaid Salary Continuation Payments shall be due and payable.

5. Nothing contained in this Agreement is intended to waive your rights to receive unemployment insurance benefits from the Texas Workforce Commission. If you are eligible, the Company will not oppose any application for such benefits filed by you. Nothing contained in this Agreement constitutes a promise or guarantee that you will be eligible for unemployment insurance benefits; you acknowledge and agree that any such determination of eligibility shall be made solely by the Texas Workforce Commission.

6. (a) By executing this Agreement and in consideration of the terms set forth herein, you hereby release and forever discharge the Company and its present, former and future

officers, owners, directors, stockholders, members, managers, employees, representatives, attorneys, agents, insurers and its corporate parents, divisions, affiliates, subsidiaries, predecessors, transferees, successors and assigns (hereinafter, the "**Released Parties**") from any and all liability, actions, causes of action, proceedings, suits, debts, covenants, contracts, controversies, agreements, promises, damages, judgments, and demands of whatever nature, in law or in equity, direct or indirect, known or unknown, matured or not matured that you and/or your heirs, executors, legal representatives, administrators, or assigns ever had, now have or may have in the future, through the Termination Date, against the Released Parties or any of them, such as any claim, charge or cause of action for breach of contract, tort or harassment or discrimination (a "**Claim**" or "**Claims**") under any federal, state or local law, rule, regulation or executive order, to the extent any such Claim may be released and discharged under applicable law, including but not limited to: (i) any and all Claims arising under Sections 1981 through 1988 of Title 42 of the United States Code, as amended; the Age Discrimination in Employment Act of 1967, as amended; the Older Workers Benefit Protection Act, as amended; the Rehabilitation Act of 1973; the Americans with Disabilities Act, as amended; the Family and Medical Leave Act, as amended; the Employee Income Retirement Security Act of 1974; the Civil Rights Act of 1866; the Civil Rights Act of 1991; United States Executive Orders 11246 and 11375; Title VII of the Civil Rights Act of 1964, as amended; the Equal Pay Act, as amended; the Consolidated Omnibus Budget Reconciliation Act, as amended; the Occupational Safety and Health Act, as amended; the Genetic Information Nondiscrimination Act of 2008; the Fair Labor Standards Act; the Immigration Reform and Control Act of 1986; and the Worker Adjustment and Retraining Notification Act of 1988; (ii) any and all Claims arising under any provisions of Texas law, including but not limited to Chapter 21 of the Texas Labor Code, the Texas Payday Act, the Texas Anti-Retaliation Act, and the Texas Whistleblower Act, and amendments to those laws, as well as any Claims under local statutes and ordinances that may be legally waived and released; and (iii) any other federal, state or local law, as all such laws as may be amended from time to time.

(b) You further represent and warrant that as of the date of your execution of this Agreement, there are no complaints, charges or other matters filed by you or pending before any federal, state or local court or agency against the Released Parties (other than worker's compensation claims filed by you, if any), and that in the future, you will not file or cause to be filed any action, complaint, charge or other matter with any federal, state or local court or agency against the Released Parties or any of them arising out of events occurring prior to your execution of this Agreement.

(c) Nothing contained in this Release shall restrict your right to file a charge or participate in an investigation, hearing or proceeding before the Equal Employment Opportunity Commission or other administrative agency, except that you agree that you will not accept any further recovery, award and/or damages from the Company as a result of any such investigation. This Release does not waive rights or claims that you may have which arise after the date this Agreement is executed. This Release does not waive your right to indemnification from the Company under the Company's Bylaws nor under any D&O insurance policy now or hereafter maintained by or on behalf of the Company. This Release does not release the Company from any of its obligations set forth in this Agreement.

7. You hereby agree that you will not: (a) make any disparaging or negative comments or statements, including but not limited in any way to any posts, comments or statements published or uploaded to, appearing on, any social and/or professional media platform about any Released Party, or their business, services, reputation, officers, directors, members, managers, employees, financial status or operations; or (b) do anything that damages any Released Party in any business relationship, or denigrates any Released Party, or its services, reputation, officers, directors, members, managers, employees, financial status or operations. The Company similarly agrees not to make any disparaging or negative comments about you. The provisions of this Section, however, shall not prevent either party from enforcing the terms of this Agreement.

8. Without limitation of any other agreement signed by you:

(a) You acknowledge the Company's exclusive ownership of all information useful in the business of the Company, its subsidiaries and its affiliates (including its dealings with suppliers, customers and other third parties, whether or not a legal "trade secret"), which at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted by the Company, and which has been or is from time to time disclosed to, discovered by, or otherwise known by you as a consequence of her employment by the Company (including information conceived, discovered or developed by you during your employment with the Company) (collectively, "**Confidential Information**"). Confidential Information includes, but is not limited to, the following especially sensitive types of information: (i) the identity, purchase and payment patterns of, and special relations with, the Company's customers; (ii) the Company's business development and marketing plans; (iii) the identity, net prices and credit terms of, and special relations with, the Company's suppliers; and (iv) the Company's finances, except to the extent publicly disclosed.

(b) The term "**Proprietary Materials**" shall mean all business records, documents, drawings, writings, software, programs and other tangible things which were or are created or received by or for the Company in furtherance of its business, including, but not limited to, those which contain Confidential Information. For example, Proprietary Materials include the following especially sensitive types of materials: applications software, the data bases of Confidential Information maintained in connection with such software, and printouts generated from such data bases; market studies and strategic plans; customer, supplier and employee lists; contracts and correspondence with customers and suppliers; documents evidencing transactions with customers and suppliers; sales calls reports, appointment books, calendars, expense statements and the like, reflecting conversations with any company, customer or supplier; and purchasing, sales and policy manuals. Proprietary Materials also include any such things that are created by you or with your assistance and all notes, memoranda and the like prepared using the Proprietary Materials and/or Confidential Information.

(c) While some of the information contained in Proprietary Materials may have been known to you prior to your employment with the Company, or may now or in the future be in the public domain, you acknowledges that the compilation of that information contained in the Proprietary Materials has or will cost the Company a great effort and expense, and affords persons to whom Proprietary Materials are disclosed, including you, a competitive advantage over persons who do not know the information or have the compilation of the Proprietary

Materials. You further acknowledge that Confidential Information and Proprietary Materials include commercially valuable trade secrets and become the Company's exclusive property when they are conceived, created or received. You agree that all discoveries, inventions and improvements, whether or not patentable, and which either (i) relate to or arise out of any part of the Company's business in which you participated, or (ii) incorporate or make use of Confidential Information or Proprietary Materials (all items referred to in this Section being sometimes collectively referred to herein as the "**Intellectual Property**") shall be deemed Confidential Information of the Company, and any writing or other tangible things describing, referring to, or containing Intellectual Property shall be deemed the Company's Proprietary Materials. At the request of the Company, at any time, you (or after your death, your personal representative) shall, at the expense of the Company, make, execute and deliver all papers, assignments, conveyances, installments or other documents, and perform or cause to be performed such other lawful acts, and give such testimony, as the Company deems necessary or desirable to protect the Company's ownership rights and Intellectual Property.

(d) You shall, except as may be required by law, at all times during the two-year period following the Termination Date: (i) comply with all of the Company's reasonable instructions (whether oral or written) for preserving the confidentiality of Confidential Information and Proprietary Materials; (ii) not use Confidential Information and Proprietary Materials for any purpose; (iii) not disclose any Confidential Information or Proprietary Materials except as expressly authorized by the Company in writing; (iv) not copy all or any part of Proprietary Materials; (v) not sell, give, loan or otherwise transfer any copy of all or any part of Proprietary Materials to any person who is not an employee of the Company; and (vi) not publish, lecture on or otherwise disclose to any person who is not an employee of the Company, all or any part of Confidential Information or Proprietary Materials; and not use all or any part of any Confidential Information or Proprietary Materials for the benefit of any third party without the Company's written consent.

9. Promptly following the Termination Date, you shall promptly surrender to the Company the original and all copies of Proprietary Materials (including all notes, memoranda and the like concerning or derived therefrom), whether prepared by you or others, which are then in your possession or control. Records of payments made by the Company to or for the benefit of you, your copy of this Agreement, your personal diaries, personal mementos, personal effects shall not be deemed Proprietary Materials for purposes of this Section, and other such things, lawfully possessed by you which relate solely to taxes payable by you, employee benefits due to you or the terms of your employment with the Company, shall also not be deemed Proprietary Materials for purposes of this Section.

10. Without limitation of any other agreement, and in order to protect the valid business interests of the Company, and in consideration of the Severance Consideration provided hereunder, You covenant and agree as follows:

(a) During the two year period following the Termination Date (herein, the "**Restricted Period**"):

(i) You will not, whether directly or indirectly, and whether on your own behalf or as an employee, officer, director, consultant, advisor, agent, representative, shareholder, partner, independent contractor or in any capacity on behalf of any sole proprietorship, corporation, partnership, joint venture, person or other entity which in any way competes with the Company or its business, solicit or attempt to solicit any client or customer of the Company or any person or entity which at any time during the six months prior to the Termination Date was then a prospective client or customer of the Company;

(ii) You will not attempt in any manner to persuade any of the customers of the Company to cease doing business or reduce the amount of business which any of such customers has done or may contemplate doing with the Company;

(iii) You will not, whether directly or indirectly, and whether on your own behalf or as an employee, officer, director, consultant, advisor, agent, representative, shareholder, partner, independent contractor or in any capacity on behalf of any sole proprietorship, corporation, partnership, joint venture, person or other entity, employ any person who at any time during the Restricted Period is or was an employee of the Company;

(iv) You will not, directly or indirectly, be employed by, provide consulting services to, or otherwise assist, participate or facilitate the business of, any of the companies or entities listed on Exhibit A attached hereto.

(v) For purposes of the foregoing, "directly or indirectly" means in your individual capacity for your own benefit or for the benefit of any other person, or as an employee, officer, director, agent, representative, consultant, advisor, shareholder, partner, member or other principal.

(b) You acknowledge that your position with the Company required the performance of services which are, and were, special, unique and extraordinary and such position placed her in a position of confidence and trust with the customers of the Company, and accordingly the restrictions contained in this Agreement are reasonable and necessary in view of the nature of the Company's businesses, in order to protect the legitimate interests of the Company, and that any violation thereof would result in irreparable injury to the Company. Therefore, you agree that, in the event of a breach or threatened breach by you of the provisions of this Agreement, the Company shall be entitled to obtain from any court of competent jurisdiction, preliminary and permanent injunctive relief restraining you from any violation of the foregoing.

(c) You acknowledge that you have the ability to earn a livelihood notwithstanding compliance with this Agreement and that you have entered this Agreement with full understanding and acceptance of the terms hereof. You further acknowledge that the restrictions imposed herein are fair and reasonable and are required for the protection of the Company and are given as an integral part of the provisions set forth in this Agreement. You further acknowledge that the location of the Company's customers and business extends beyond the geographic area of the Company's principal office or state of incorporation and this Section contains reasonable limitations as to time, geographical area and scope of activity, and such restrictions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company. If any of the covenants contained in this Agreement, or any part hereof, is hereinafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions. If any of the covenants contained in this Agreement, or any part hereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or geographic area of such provision and, in its reduced form, said provision shall then be enforceable, it being the intent and agreement of the parties that each of the aforesaid covenants shall be deemed an independent covenant. The parties agree that in the event that the courts of any one or more of any state having jurisdiction shall hold the above covenants wholly unenforceable by reason of the breadth of scope or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the right of the Company to the relief provided above in the courts of any other states within the geographical scope of such covenants, as to breaches of such covenants in such other respective jurisdictions, the above covenants as they relate to each state being, for this purpose, severable into diverse and independent covenants.

11. The terms and conditions of this Agreement, and all communications, written or oral, made in connection herewith, are confidential and shall not be disclosed to any person or entity, other than to your attorney, accountant or financial advisor, or spouse, except in a proceeding to enforce the terms hereof. In the event of a disclosure to your attorney, accountant or financial advisor, or spouse, you shall advise them that they may not make any subsequent disclosures of such information. If the Company determines that a copy of this Agreement is to be filed with the Securities and Exchange Commission (as to which you hereby consent), then the foregoing provisions regarding the confidentiality of this Agreement and its terms shall not apply.

12. (a) You hereby agree that you will return and turn over to the Company all property belonging to the Company in your possession including, but not limited to, all Confidential Information and Proprietary Materials, as defined herein, including all documents and reproductions thereof in whatever form or medium the same was received in or maintained, as well as all keys, credit cards, computer equipment, remote access cards, security codes, and software or passwords of any sort. You represent and warrant that you have not retained any copies or reproductions of any documents, materials or equipment belonging to the Company. You may retain your cell phone, but any Confidential Information or Proprietary Materials stored therein shall be subject to the terms hereof.

(b) Pursuant to the Defense of Trade Secrets Act, an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law. An individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such a filing is made under seal and does not disclose the trade secret, except pursuant to court order.

13. You hereby waive any and all claims for reinstatement or employment with the Company and any of its corporate parents, divisions, affiliates, subsidiaries, predecessors, transferees, successors and assigns.

14. In the event of a material breach of any of the terms of this Agreement, the Company may commence an action against you to enforce the terms of this Agreement in any court of competent jurisdiction within the State of Texas. Moreover, if you breach this Agreement, you acknowledge and agree that the Company will cease providing the Severance Consideration and you shall be obligated to reimburse the Company for the Severance Consideration made to you or on your behalf by the Company pursuant to this Agreement.

15. You hereby acknowledge that: (a) this Agreement provides for the release of any claim that you may have had under the Age Discrimination in Employment Act, as amended by the Older Workers' Benefit Protection Act (the "**ADEA**"), along with the release of other claims that you may have as described in Paragraph 6 of this Agreement; and (b) the Company has provided to you information required by the ADEA as set forth in Attachment A annexed hereto and made a part hereof. You acknowledge that you do not waive any such rights or claims that may arise after the date this Agreement is executed.

16. (a) You hereby acknowledge that: (i) the only consideration for signing this Agreement is as set forth herein; (ii) you have been advised that you have at least forty-five (45) calendar days to consider this Agreement (the "**Consultation Period**"); (iii) you have been advised of your right, or have been given sufficient opportunity, to consult advisors, legal and otherwise, of your own choosing; and (iv) you have signed this Agreement voluntarily and with a full understanding of its terms and conditions, which, once effective, may not be amended, supplemented, canceled or discharged except by a writing signed by you and the Company.

(b) You acknowledge that if you execute this Agreement at any time prior to the end of the Consultation Period, such early execution was a knowing and voluntary waiver of your right to consider the Agreement for at least forty-five calendar days, and was not induced by the Company through fraud, misrepresentation, threat to alter or withdraw the offer prior to the expiration of the Consultation Period, or by providing different terms to employees who sign the release prior to the expiration of the Consultation Period. Rather, you acknowledge and agree that any early execution of this Agreement resulted from (i) your desire to expedite the processing of the consideration provided hereunder and (ii) your own belief that you had ample time to consider and understand this Agreement and review this Agreement with an attorney, during such shortened period.

(c) You acknowledge that this Agreement shall not be effective for a period of seven (7) days following your signing it and that you may revoke this Agreement for any reason during such seven (7) day period (the "**Revocation Period**"). Notice of your revocation of this Agreement must be received by the Company no later than 5:00 p.m. on the seventh (7th) day following the execution of this Agreement.

(d) **You may not sign or return a signed copy of this Agreement prior to the close of business on the Termination Date. You must return a signed copy of this Agreement after the close of business on the Termination Date and before forty-five (45)**

calendar days from the Termination Date has elapsed, or this Agreement and the offer of severance set forth in Paragraph 3 above shall be deemed withdrawn, and this Agreement shall be of no force and effect. None of the Severance Consideration described in this Agreement will be paid or provided by the Company until after you return a signed copy of this Agreement and after the expiration of the Revocation Period.

17. You hereby represent and agree that you have not heretofore assigned or transferred, or purported to have assigned or transferred, to any person whomsoever, any Claim or portion thereof or interest therein. You further agree to indemnify, defend and hold harmless each and all of the Released Parties against any and all Claims based on, arising out of, or in connection with any such transfer or assignment, or purported transfer or assignment, of any Claims or any portion thereof or interest therein.

18. This Agreement shall not constitute nor be construed as an admission by either party or any misconduct or violation of any federal, state or local law, rule or regulation, or any contractual obligation or Company procedure. Accordingly, this Agreement shall not be admissible in any proceeding except one to enforce the terms of this Agreement.

19. This Agreement constitutes the complete understanding between you and the Company and fully supersedes any prior understandings or agreements, whether written or oral, between you and the Company regarding the subject matter hereof. This Agreement supersedes and replaces your Executive Severance Agreement dated June 1, 2016.

20. If any provision of this Agreement is subsequently declared by any court or agency of competent jurisdiction to be illegal, void or unenforceable, as written, the remaining provisions of this Agreement shall nevertheless remain in full force and effect. This Agreement shall be construed and governed for all purposes in accordance with the laws and public policy of the State of Texas without regard to principles of conflict of laws.

21. No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and signed by you and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by you or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right you or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

22. Each payment hereunder shall constitute a separate payment for purposes of Section 409A of the Internal Revenue Code of 1986, as amended and the Treasury regulations promulgated thereunder ("**Section 409A**"). The parties agree that it is the intent of the parties to comply with the applicable provisions of Section 409A, and this Agreement may be amended, as reasonably requested by either party, as may be necessary to fully comply with said Section 409A in order to preserve the payments and benefits provided hereunder without additional cost to either party. Without in any way limiting the generality of the foregoing, the parties intend (a) the payments hereunder to be exempt from Section 409A to the maximum extent permitted under

the short-term deferral rule of Treasury Regulation Section 1.409A-1(b)(4) and/or the separation pay exemption under Treasury Regulation Section 1.409A-1(b)(9)(iii) and (b) the benefits provided hereunder to be exempt from 409A under Treasury Regulation Section 1.409A-1(b)(9)(v)(B) or 1.409A-1(a)(5) (relating to certain welfare benefits). Notwithstanding the foregoing, the Company does not make any representations, warranties or guarantees about the tax treatment of any payments or continuation of benefits hereunder, under Section 409A or otherwise.

[next page is signature page]

Please confirm that this letter accurately sets forth our agreement by signing below and returning two (2) originals to me.

Sincerely yours,

Priority Fulfillment Services, Inc.

By:
Tom Madden, Executive Vice President

I acknowledge that I have carefully read this Agreement and understand all of its terms including the full and final Release of Claims as set forth above. I further acknowledge that I have voluntarily entered into this Agreement, that I have not relied upon any representation or statement, written or oral, not set forth in this Agreement, and that I have had this Agreement reviewed by my attorney, or have been given the opportunity by the Company to do so.

AGREED TO, ACCEPTED
AND CONFIRMED BY:

____
MS. CYNTHIA ALMOND

Dated: May ___, 2017

THIS IS A LEGAL AGREEMENT AND GENERAL RELEASE NOT TO SUE.
THIS SEPARATION AGREEMENT AND RELEASE INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS.

<u>READ CAREFULLY BEFORE SIGNING.</u>

Exhibit 10.2

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: May 10, 2017

By: /s/ Michael Willoughby
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS OF PRINCIPAL FINANCIAL 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: May 10, 2017

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 March 31, 2017 (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.

May 10, 2017	/s/ Michael Willoughby Michael Willoughby Chief Executive Officer
May 10, 2017	/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.