

PFSWEB INC
Form 10-K
March 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 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	75-2837058
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification Number)

505 Millennium Drive, Allen, Texas	75013
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code

972-881-2900

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value \$.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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.

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant as of June 30, 2017 (based on the closing price as reported by the National Association of Securities Dealers Automated Quotation System) was \$122,904,777.

There were 19,025,218 shares of the registrant's Common Stock outstanding as of March 9, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Information required by Part III of this Form 10-K, to the extent not set forth herein, is incorporated herein by reference to the registrant's definitive proxy statement for its 2018 annual meeting of shareholders, which is expected to be filed with the Securities and Exchange Commission by April 30, 2018.

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Unless otherwise indicated, all references to “PFSweb,” “the Company,” “we,” “us” and “our” refer to PFSweb, Inc., a Delaware corporation, and its subsidiaries; references to “PFS” refer collectively to our wholly-owned subsidiaries, Priority Fulfillment Services, Inc., Priority Fulfillment Services of Canada, Inc., PFSweb BV (Belgium)(and its subsidiaries), REV Solutions, Inc., REVTECH Solutions India Private Limited, PFSweb Global Services Private Limited, LiveAreaLabs, Inc., Moda Superbe Limited, CrossView, Inc. and Conexus Limited; references to “Supplies Distributors” refer collectively to our wholly-owned subsidiary Supplies Distributors, Inc. and its subsidiaries; and references to “Retail Connect” refers to our wholly-owned subsidiary PFSweb Retail Connect, Inc.

PART I

Item 1. Business

General

PFSweb is a Global Commerce Solutions Company using integrated technologies, professional services, and a worldwide network of systems and logistics to deliver global commerce solutions. We provide our clients with best-of-breed service capabilities offered as a complete end-to-end solution or on an à la carte basis. The services we offer are organized into the following categories:

- ◆ Strategic Commerce Consulting
- ◆ Strategy, Design and Digital Marketing Services
- ◆ Technology Services
- ◆ Order Management
- ◆ Order Fulfillment
- ◆ Customer Care
- ◆ Financial Services

Our solutions support direct-to-consumer (“DTC”), business-to-business (“B2B”), and retail sales channels. The majority of our clients are the merchants of record for the orders we process through our infrastructure on their behalf. For these clients, we do not own the inventory or the resulting accounts receivable, but provide eCommerce solutions and other services for these client-owned assets.

For some of our clients, we are the merchant of record for the orders we process through our infrastructure. Depending on the terms under these arrangements, we record either product revenue or service fee revenue, may own the accounts receivable and inventory and we may be compensated for all or a portion of our services through the resulting profit margin. In some of these client relationships, we purchase the inventory as the product is delivered to our facility. In other of these client relationships, the client retains ownership of inventory in our facility and we purchase the inventory immediately prior to each individual customer sales transaction. In all of these cases, we seek inventory financing from our clients in the form of extended terms, working capital programs or marketing funds to help offset the working capital requirements that follow accounts receivable and inventory ownership.

We are headquartered in Allen, Texas where our executive and administrative offices and our primary technology operations and facilities are located, and certain professional services including digital agency and technology services are performed. We operate state-of-the-art call centers from our U.S. facility located in Dallas, Texas and from our international facilities located in Richmond Hill, Ontario, Canada, Liège, Belgium, and Basingstoke, U.K. We lease or manage warehouse facilities of approximately 1.7 million square feet in Memphis, Tennessee, Southaven, Mississippi, Richmond Hill, Ontario, Canada and Liège, Belgium, allowing us to provide global distribution solutions. Additionally, we engage in business development activities and provide additional digital agency services and/or technology services from our offices in Minnesota, New York, Washington, United Kingdom (“U.K.”), Bulgaria and India.

GLOBAL COMMERCE SOLUTIONS

PFSweb serves as the “brand behind the brand” for companies seeking to increase efficiencies, enter new markets or launch optimized sales channels. As an eCommerce development firm, digital agency and business process outsourcer, we offer scalable and cost-effective solutions for brand manufacturers, online retailers, and distributors across a wide range of industry segments. We provide our clients with seamless and transparent solutions to support

their business strategies, allowing them to focus on their core competencies. Leveraging our technology, expertise and proven methodologies, we enable clients to develop and deploy new products and implement new business strategies or address new distribution channels rapidly and efficiently through our optimized solutions. Our clients engage us both as a consulting partner to assist them in the design of a business solution as well as a virtual and physical infrastructure partner to provide the mission critical operations required to build and manage their business solution. Together, we not only help our clients define new ways of doing business, but also provide them the technology, physical infrastructure and professional resources necessary to quickly implement their business model. We allow our clients to quickly and dramatically change how they “go-to-market.”

Each client has a unique business model and unique strategic objectives that often require highly customized solutions. We support clients in a wide array of industries, including fashion apparel and accessories, fragrance and beauty products, consumer packaged goods (“CPG”), home furnishings and housewares, coins and collectibles, and technology products. These clients turn to PFSweb for help in addressing a variety of business needs that include strategic consulting, commerce creative design and development, customer satisfaction and retention, time-definite logistics, vendor managed inventory and integration, supply chain

compression, cost model realignments, transportation management and international expansion, among others. We also act as a constructive agent of change, providing clients the ability to alter their current distribution model, establish direct relationships with end-customers, and reduce the overall time and costs associated with existing distribution channel strategies. Our clients are seeking solutions that will provide them with dynamic supply chain and multi-channel marketing efficiencies, while ultimately delivering a world-class, branded customer service experience.

Our value proposition is to become a seamless, well integrated extension of our clients' enterprises by delivering superior solutions that drive optimal customer experiences. On behalf of the brands we serve, we strive to increase and enhance sales and market growth, bolster customer satisfaction and customer retention, and drive costs out of the business through operations and technology related efficiencies. As both a virtual and a physical infrastructure for our clients' businesses, we embrace their brand values and strategic objectives. By utilizing our services, our clients are able to:

Quickly Capitalize on Market Opportunities. Our solutions empower clients to rapidly implement their supply chain and eCommerce strategies and take advantage of opportunities without lengthy integration and implementation efforts. We have readily available advanced technology and physical infrastructure that is flexible in its design, which facilitates quick integration and implementation. The solution is designed to allow our clients to deliver consistent quality service as transaction volumes grow and also to handle daily and seasonal peak periods. Through our international locations, our clients can sell their products throughout the world.

Improve the Customer Experience. We enable our clients to provide their customers with a high-touch, positive buying experience thereby maintaining and promoting brand loyalty. Through our use of advanced technology, we can respond directly to customer inquiries by e-mail, voice or data communication and assist them with online ordering and product information. We believe we offer our clients a "world-class" level of service, including Web-enabled customer care service centers, detailed Customer Relationship Management ("CRM") reporting and exceptional order accuracy. We have significant experience in the development of eCommerce storefronts that allows us to recommend features and functions easily navigated and understood by our clients' customers. Our technology platform is designed to ensure high levels of reliability and fast response times for our clients' customers. Because of our technology, our clients benefit from being able to offer the latest in customer communication and response conveniences to their customers.

Minimize Investment and Improve Operating Efficiencies. One of the most significant benefits outsourcing provides is the ability to transform fixed costs into variable costs. By eliminating the need to invest in a fixed capital infrastructure, our clients' costs typically become more directly correlated with volume increases or declines. Further, as volume increases drive the demand for greater infrastructure or capacity, we are able to quickly deploy additional resources. We provide services to multiple clients, which enables us to offer our clients economies of scale and resulting cost efficiency that they may not have been able to obtain on their own. Additionally, because of the large number of daily transactions we process, we have been able to justify investments in levels of automation, security surveillance, quality control processes and transportation carrier interfaces that are typically outside the scale of investment that our clients might be able to cost justify on their own. These additional capabilities can provide our clients the benefits of enhanced operating performance and efficiency and expanded customer service options.

Access a Sophisticated Technology Ecosystem. We provide our clients with access to a Technology Ecosystem featuring best-of-breed eCommerce technologies together in a single, integrated, Payment Card Industry ("PCI") certified offering. Powered by leading enterprise-class software solutions, our platform is seamlessly integrated into our back-end operations to provide an end-to-end eCommerce solution. Built to accelerate the implementation process, the Technology Ecosystem allows for flexible integrations with other technology providers and client systems.

Our Technology Ecosystem also extends beyond the digital world and into physical commerce channels. Brands and retailers today require flexible technology to control customer shopping experiences regardless of where they shop. Deploying ship from store, in-store pick up, or mobile point of sale capabilities are just a few examples of how we can enable brands to create a dynamic and unique omni-channel shopping experience.

Direct-to-Consumer eCommerce. Established in 2008, our End2End eCommerce® solution for the DTC technology practice was dedicated to Salesforce Commerce Cloud (formerly Demandware). Through this partnership, we have deployed one of the largest international Salesforce Commerce Cloud development teams in the world and maintain a talented team of certified developers who create world-class user experiences for some of the world's leading brands. Since 2014, we have expanded the number of platforms we support to include SAP Hybris, Oracle Commerce, IBM Watson Commerce, Magento, and Shopify Plus. We have integrated these platforms with the rest of our world-class technology platform, including other best-of-breed technology partners, to create reference applications and platform frameworks that provide our clients with very high-function, platform-specific online stores. We use reference applications and platform frameworks as a starting point to quickly create a completely customized online store for our clients.

Our comprehensive offering redefines end-to-end commerce by enabling retailers and branded consumer goods manufacturers with the ability to employ a total outsourcing solution customized to their particular Commerce strategy, without the loss of site or brand control associated with earlier end-to-end outsourcing solutions.

We believe our highest value proposition is achieved when our clients engage our full suite of services from all of the categories included in PFSweb's End2End eCommerce® solutions. However, we provide our clients with the opportunity to customize their solution by selecting only certain services from our offering in à la carte fashion if they prefer. We believe this flexibility and willingness to create a customized solution for each client is one of the ways we believe we can differentiate ourselves from our competition.

Strategic Commerce Consulting Services

Our strategic commerce consulting practice leverages our commerce business and operational capabilities along with extensive vertical expertise to assist our clients in identifying new opportunities for channel revenue/margin growth, omni-channel alignment, digital transformation, new customer/segment acquisition, market expansion, and cost savings. We also monitor emerging technologies and trends, with an eye to measuring business impact and alignment with our clients' end goals. With a focus on actionable strategy, we seek to optimize clients' commerce investments while anticipating competitive opportunities and threats.

Our clients seek help navigating an increasingly complex digital landscape, lowering barriers to market for new players and an array of options for companies looking to innovate. We work closely with client stakeholders to develop strategic and prioritization frameworks that drive change while providing the ability to pivot as threats or opportunities are identified. In particular, our consultants focus on three key areas that enable clients to remain competitive while taking a leadership position: commerce ecosystem management (including omni-channel alignment), digital opportunity analysis, and a "continuous beta" operational model to roll out new capabilities and tactics in a measurable yet timely fashion.

Commerce Strategy. From identifying new markets and methods to drive higher revenue to delivering competitive and market analysis, we help clients formulate strategies and tactics that work. Our consultants look to leverage existing assets, personnel, and processes wherever possible while identifying where investment is needed. We also offer roadmaps and initiative "backlogs" prioritized for impact, including guidance on taking a phased approach. Our recommendations balance the need for achieving timely ROI against sometimes competing needs for scalability and aggressive growth.

Omni-Channel Consulting. Retail clients are concerned with increased consumer expectations for a holistic, seamless experience regardless of where or when they shop, in store or online. We offer an array of services that help retailers meet consumer expectations across the commerce lifecycle, from customer acquisition through the transaction, order fulfillment, customer service, and loyalty. In particular, we implement tools and processes to support "endless aisle" inventory access, ship-to-store and ship-from-store capabilities, buy online and return in-store, and similar delivery scenarios. Likewise, we consult with retailers on leveraging digital tools within the store environment, whether enabling sales associates to "save the sale" in-store or enhancing consumers' overall experience.

Digital Opportunity Audits. Our consultants help clients identify where new digital platforms, tools, and technologies can provide competitive advantage or bridge gaps in their current operations and capabilities. Audits can take into account the competitive landscape, industry trends, digital best practices across verticals, and cost models, providing helpful benchmarks and flagging areas of opportunity. Audits may be conducted periodically to track changes and emerging technologies and measure effectiveness.

Organizational/Operational Readiness. Many clients require organizational readiness consulting to ensure they can effectively utilize the platforms and tools we provide. Providing readiness consulting is crucial to driving client satisfaction and confidence when adopting commerce platforms, particularly when business users are given new capabilities and may need to adapt existing business processes. We also provide organizational design consulting, which is often implemented in a phased approach as the client's commerce channel grows; this may include

recommendations regarding which functions to outsource and which to maintain in house.

Platform Evaluation/Selection. Our strategists take the lead in helping clients evaluate and select the right commerce platforms, leveraging our expertise implementing all market-leading solutions. We assist clients through a process matching their requirements to platform capabilities, measure their operational ability to utilize the platforms under consideration, and provide total cost of ownership (TCO) analysis comparing initial and ongoing costs for everything from software licensing models to ongoing maintenance and upgrades.

Strategy, Design, and Digital Marketing Services

Digital Strategy. We build digital strategies to target the intersection of our client's goals, brand and customers. Informed by in-depth and ongoing collaboration with the client, data-driven insight and practiced expertise, we craft actionable plans that deliver results. We specialize in adapting to the changing market, emerging technologies, and evolving customer behavior. Our strategy capabilities focus on brand development, digital commerce, content, and digital analytics and optimization.

Design. We conceive and design client solutions with a deliberate focus on balancing creativity and usability. We create flagship digital experiences for global brands, offering full-service creative design and production services for a range of digital applications. Breathing creativity, insight, and expertise into design-centered initiatives we ignite growth and drive digital transformation. Our

advanced customer experience design offerings include concept development, visual design, user experience design, copywriting, interactive development, and content creation.

User Experience. We architect fully responsive branded commerce sites and tools that eliminate transactional friction, reduce cognitive load, and add delight throughout the shopping experience. We specialize in taking advantage of platform functionality to add one-of-a-kind interactions and designing guided selling apps that use brand expertise to walk customers through complicated purchase decisions.

Interactive Development. We believe front-end development is as much about artfully enhancing a user interaction as it is engineering pixel perfection. We turn digital designs into beautiful, functioning experiences that look and behave the way they were intended to across screens and devices of all types, sizes, and systems. We also take every opportunity to use motion and interactive accents to provide users with guidance and delight throughout an experience.

SEO & Paid Search. We drive traffic by maintaining an in-depth knowledge of the ever-changing best practices for search engine optimization. We provide insight and advice on algorithm changes, content gaps, multi-language global expansion, and competitors' search efforts. From implementation to ongoing management, we can help brands reach customers who are actively looking for what they offer.

Affiliate Marketing. Our approach to affiliate partner marketing focuses on building relationships with reputable, appropriate online influencers. We can help clients reach customers they may not through other channels, improving brand awareness and increasing sales quickly and efficiently. Then, through proactive program management, we can ensure ongoing optimization and continued growth. From publisher research and competitive analysis to payments, we can implement and manage the entire affiliate and partner ecosystem.

Conversion Optimization. Our conversion optimization team applies an in-depth analysis of product and behavioral data on the storefront to continually optimize our client's site. By combining analytics with the capabilities of the platform, we plan and execute A/B tests, optimize onsite search, and create personalized experiences to maximize the impact of the marketing and merchandising efforts. From an audit of an existing site to building a conversion optimization roadmap, we help our clients generate more revenue and provide an ever-improving customer experience that turns shoppers into buyers.

Storefront Management. Through proven strategic merchandising methodologies, we create personalized shopping experiences that drive conversion and increase revenue. With specialized expertise in dynamic merchandising, we can draw on each customer's history and intent to connect these buyers with the right products and content at the right time. Our day-to-day storefront operations include product and category setup, sorting rules definition, promotion configuration, and price adjustment. Working within predetermined guidelines, we incorporate best practices and make strategic decisions to achieve each client's goals.

Email Marketing. Combining technology with proven strategies, we elevate and optimize email programs to develop personalized customer relationships. We create custom customer journeys through dynamic email, automated remarketing, automations, and subscriber segmentation. Our data focused approach reduces the costs of customer acquisition, inspires brand loyalty, and increases ROI through both larger basket sizes and higher customer lifetime value.

Digital Analytics. We provide more than snapshots of user activity through the usual charts and dashboards. We mine all available data and use advanced analysis to identify opportunities within the customer journey that will allow brands to improve the overall user experience and generate increased business. With a focus on never-ending improvement, we use the data to continuously pinpoint actions that will strengthen customer relationships and drive

results across marketing channels.

Technology Services

PFSweb's Technology Services builds world-class commerce websites that are designed to maximize revenue opportunities. Built by a seasoned group of professionals, we combine strategy and technology to create innovative user experiences. From high-fashion apparel to CPG, our portfolio consists of brands that accept only the highest quality shopping websites.

We use a proven methodology to deliver quality implementations to meet some of the strictest brand requirements in the industry. Our project teams are comprised of industry-leading professionals that bring eCommerce and web development best practices to our clients' custom solutions. Once live, our team applies the same level of excellence to ongoing development, site maintenance, and solutions support.

As a platform-agnostic provider, we manage dedicated commerce technology practices specializing in all of the leading enterprise platforms to enable our clients' growth. Our expertise spans across the five major eCommerce platforms, including: Salesforce Commerce Cloud, SAP Hybris, Oracle Commerce, IBM Watson Commerce, Magento, and Shopify Plus. Our staff is ready to build custom commerce solutions on any of these platforms for our clients on a global basis. We employ a proven development methodology, led by a highly-qualified team of solutions architects, web developers, project managers, and quality assurance ("QA") testers. When paired with our Strategic Commerce Consulting Services and our design / user experience ("UX") and digital marketing

services, we can provide an entire suite of services that spans strategy, creative, project management, web development, and quality assurance.

Commerce Development. Our technology services practice partners and actively works with each commerce platform provider to ensure we are delivering quality services for our joint clients. We also work to achieve higher-level partner status with each provider to demonstrate our expertise and experience for each practice.

Managed Services. The right people, processes, and tools are essential to maintaining a high-performance commerce environment. PFSweb's Managed Services delivers all three elements integrated into an array of services to optimize, manage, and protect commerce technology. Our work doesn't stop when we launch a commerce site. Our Managed Services team provides real-time management and monitoring to ensure our clients' sites are always operating at peak performance. We provide Level 1/2/3 technical, business, and solutions support for optimal issue management. Our team of technologists manage day-to-day commerce operations and monitor technology continuously with best-in-class tools and practices. The result is a high performing, stable commerce infrastructure always available, always operating at peak performance. Our automation tools facilitate fast, accurate code deployment – whether applying a software patch or launching new code. We have the expertise and automation to identify and remediate issues even before events occur.

Quality Assurance. Whether it's a new site build or ongoing development, our team of QA experts employ a full-service test suite that includes quality assurance scripting and testing, regression, load testing, and automation.

Training. We provide on-site, personalized platform training from experienced subject-matter experts. Our training team empowers our clients' business and merchandising staff with the knowledge they need to operate and optimize their eCommerce sites. Core training includes platform essentials, advanced merchandising, front-end design, and developer training.

Order Management

Our Oracle-based, custom, Order Management System (“OMS”), is a scalable solution built for DTC and B2B and order processing. We also offer a distributed order management solution utilizing the Kibo software that is tightly integrated with our internal OMS. This solution provides retailers with a complete technology solution for integrating both online and offline channels. Our order management technology solutions provide interfaces that allow for real-time information retrieval, including information on inventory, sales orders, shipments, delivery, purchase orders, warehouse receipts, customer history, accounts receivable and credit lines. These solutions are seamlessly integrated with our web-enabled customer contact centers, allowing for the processing of orders through shopping cart, phone, fax, mail, email, web chat, and other order receipt methods. As the information backbone for our total supply chain solution, order management services can be used on a stand-alone basis or in conjunction with our other business infrastructure offerings, including customer contact, financial or distribution services. In addition, for the B2B market, our technology platform provides a variety of order receipt methods that facilitate commerce within various stages of the supply chain. Our systems provide the ability for both our clients and their customers to track the status of orders at any time. Our services are transparent to our clients' customers and are seamlessly integrated with our clients' internal system platforms and web sites. By synchronizing these activities, we can capture and provide critical customer information, including:

- Statistical measurements critical to creating a quality customer experience, containing real-time order status, order exceptions, back order tracking, allocation of product based on timing of online purchase and business rules, the ratio of customer inquiries to purchases, average order sizes and order response time;
- B2B supply chain management information critical to evaluating inventory positioning, for the purpose of improving inventory turns, and assessing product flow-through and end-user demand;

Reverse logistics information, including customer response and reason for the return or rotation of product and desired customer action;

- Detailed marketing information about what was sold and to whom it was sold, by location and preference; and

Web traffic reporting showing the number of visits (“hits”) received, areas visited, and products and information requested.

Technology Collaboration. We have created a suite of technology services that enable buyers and suppliers to fully automate their business transactions within their supply chain using the order management interfaces. Our collaboration technologies operate in an open systems environment and feature the use of industry-standard Extensible Markup Language (“XML”) and Service-Oriented Architecture (“SOA”) web services, enabling customized eCommerce solutions with minimal changes to a client’s systems or our systems. The result is a faster implementation process. We also support information exchange methods, such as Applicability Statement 2 (“AS2”), Secure File Transfer Protocol (“SFTP”), Electronic Data Interchange (“EDI”), Message Queue Series (“MQ Series”), Application Link Enabling (“ALE”), and Representational State Transfer / Simple Object Access Protocol (“REST/SOAP”) over Hyper Text Transfer Protocol Secure (“HTTPS”).

Information Management. We have the ability to communicate with and transfer information to and from our clients through a wide variety of technology services, including real-time web service enabled data interfaces, file transfer methods and electronic data interchange. Our systems are designed to capture, store and electronically forward to our clients critical information regarding customer inquiries and orders, product shipments, inventory status (for example, levels of inventory on hand, on backorder, on purchase order and inventory due dates to our warehouse), product returns and other information. Our systems are capable of providing our clients with customer inventory and order information for use in analyzing sales and marketing trends and introducing new products. We also offer customized reports and data analyses based upon specific client needs to assist them in their budgeting.

Order Fulfillment

We design advanced pick-pack-ship operations that streamline our clients' supply chain process and offer a flexible fulfillment distribution model. Our fulfillment team understands the value of the delivery experience by specializing in creating branded solutions with gift wrap, product personalization, and other branded services. Our distribution centers are located in the Memphis, Tennessee area, Toronto, Canada and Liege, Belgium to provide centrally located fulfillment throughout North America and Europe.

Advanced Distribution Facilities and Infrastructure. An integral part of our solution is the warehousing and distribution of our clients' inventory. We receive inventory in our distribution centers, verify shipment accuracy, unpack and audit packages (a process that includes spot-checking a percentage of the inventory to validate piece counts and check for damages that may have occurred during shipping, loading and unloading). Upon request, we inspect for other damages or defects, which may include checking fabric, stitching and zippers for soft goods, or 'testing' power-up capabilities for electronic items as well as product specifications. We generally stock for sale within one business day of unloading. We pick, pack and ship customer orders and can provide customized packaging, customized monogramming, personalized laser engraving, high volume shrink packaging, inserts and promotional literature for distribution with customer orders. For many clients, we provide gift-wrapping services including line level gifting, customized gift-wrapping paper, ribbon, gift-box and gift-messaging.

Our distribution facilities contain computerized sortation equipment, flexible mobile pick-to-light carts, powered material handling equipment, scanning and bar-coding systems. Our distribution facilities include several advanced technology enhancements, such as radio frequency technology in product receiving processing to ensure accuracy, as well as an automated package routing and a pick-to-light paperless order fulfillment system. Our advanced distribution systems provide us with the capability to warehouse an extensive number of stock keeping units ("SKUs"), ranging from large high-end electronics to small cosmetic compacts. Our facilities are flexibly configured to process B2B and DTC orders from the same central location.

In addition to our advanced distribution systems, our pick-to-light carts, stationary pick-to-light areas and conveyor system controls provide real time productivity reporting, thereby providing our management team with the tools to implement productivity standards. This combination of computer-controlled equipment provides the seamless integration of our pick-to-light systems and mass sortation capabilities. This unique combination of technologies ensures high order accuracy for each and every customer order.

We are able to take advantage of a variety of shipping and delivery options, which range from next day service to zone skipping, to optimize transportation costs. Our facilities and systems are equipped with multi-carrier functionality, allowing us to integrate with all leading package carriers and provide a comprehensive freight and transportation management offering.

We offer reverse logistics management services, including issuing return authorizations, return carrier shipping labels, receipt of product, crediting customer accounts and disposition of returned product. We also leverage strategic

partnerships to provide our clients with access to distributed returns centers that collect, consolidate, report on and forward to our central facilities returned product allowing us to accelerate credits to our clients' customers, reduce freight costs for our client, improve customer service and reduce complexity and cost in our facilities from handling inbound returns.

Our domestic facilities provide trained security professionals from our security headquarters in Memphis, Tennessee and Southaven, Mississippi. Continual validation and the use of current and retired law enforcement professionals ensures that we employ the latest in security processes and procedures to further enhance our surveillance and detection capabilities.

Facility Operations and Management. Our facilities management service offering includes distribution facility design and optimization, business process reengineering and ongoing staffing and management. Along with our multi-brand operations in Mississippi and Tennessee, we also manage a dedicated DTC client facility on behalf of a major retailer. Our expertise in supply chain management, logistics and customer-centric fulfillment operations can provide our clients with cost reductions, process improvements and technology-driven efficiencies.

Kitting and Assembly Services. Our expanded kitting and assembly services enable our clients to reduce the time and costs associated with managing multiple suppliers, warehousing hubs, and light manufacturing partners. As a single source provider, we provide the advantage of convenience, accountability and speed. Our kitting and assembly services include light assembly, specialized kitting and supplier-consigned inventory hub either in our distribution facilities or co-located elsewhere. We also offer customized light manufacturing and supplier relationship management.

We work with clients to re-sequence certain supply chain activities to aid in an inventory postponement strategy. We can provide kitting and assembly services and build-to-stock thousands of units daily to stock in a Just-in-Time (“JIT”) environment. This service, for example, can entail the procurement of packaging materials including retail boxes, foam inserts and anti-static bags. These raw material components may be shipped to us from domestic or overseas manufacturers, and we will build the finished SKUs to stock for the client. Also included is the custom configuration of high-end printers and servers. This strategy allows manufacturers to make a smaller investment in base unit inventory while meeting changing customer demand for highly customizable products.

Our standard capabilities include: build-to-order, build-to-stock, expedited orders, passive and active electrostatic discharge (“ESD”) controls, product labeling, serial number generation, marking and/or capture, lot number generation, asset tagging, bill of materials (“BOM”) or computer automated design (“CAD”) engineering change processing, SKU-level pricing and billing, manufacturing and metrics reporting, first article approval processes, and comprehensive quality controls.

Kitting and inventory hub services enable clients to collapse supply chains into the minimal steps necessary to prepare product for distribution to any channel, including wholesale, mass merchant retail, or direct to consumer. Clients no longer have to employ multiple providers or require suppliers to consign multiple inventory caches for each channel. We offer our clients the opportunity to consolidate operations from a channel standpoint, as well as from a geographic perspective. Our integrated, global information systems and international locations support business needs worldwide.

Customer Care

Our internal contact center operations are focused on providing essential services such as order entry, returns authorization, product inquiry, and order tracking. These operations also include our iCommerce Agent (“iCA”), a customizable web-based application featuring powerful customer service tools for accessing all required customer information. Our unique multi-lingual capabilities are possible through our strategically placed locations in Texas, Belgium, U.K., and Canada.

Customer Service Application. Through our web enabled Customer Service Application, iCA, our unique technology leverages the client’s website investment by wrapping the Customer Service Application around the existing website. Through iCA, agents provide customer service functions, such as placing orders, checking order status, facilitating returns, initiating upsell and cross sell, managing escalations, and gathering “voice of the customer” information to help our clients evolve with their customers’ changing needs. iCA is fully integrated into the client’s website, our data analytics platform, and our order processing system, allowing full visibility into customer history and customer trends. Through each of our customer touch-points, information can be analyzed and processed for current or future use in business evaluation product effectiveness and positioning, and supply chain planning. Through this fully integrated system, we are able to provide a complete customer care solution in a PFS customer care center or on a license basis to our clients’ owned or outsourced customer care centers.

Customer Assistance. An important feature of evolving commerce is the ability for the customer to communicate with a live customer service representative. Our experience has been that many consumers tell us they visited a web location for information, but not all of those consumers chose to place their order online. Our customer care services utilize features that integrate voice, e-mail, standard mail, and live chat communications to respond to and handle customer inquiries. Our customer care representatives answer various questions, acting as virtual representatives of our clients’ organization, regarding order status, shipping, billing, returns and product information and availability as well as a variety of other questions. We utilize technology that allows us to route each customer contact automatically to the appropriate customer care representative who is individually trained in the clients’ business and products.

Our web-enabled customer care centers are flexibly designed so that our customer care representatives can handle either several different clients and products in a shared agent environment, thereby creating economy of scale benefits for our clients, or through a highly customized dedicated agent support model that provides the ultimate customer experience and brand reinforcement.

Quality Monitoring. Quality is essential in our client solutions. As representatives of our clients, our customer care representatives must adhere to the unique quality standards of each client for each contact type. We continually monitor the quality of our customer care representatives against each client quality standard and use the results to provide agent-level feedback to continually improve the customer care experience. Clients may participate in the quality process by remotely listening to calls, assisting in the grading of recorded calls, and providing ongoing direction to improve quality standards through our calibration process.

Customer Self-Help. With the need for efficiency and cost optimization for many of our clients, we have integrated interactive voice response (“IVR”) as another option for customer contacts. IVR creates an “electronic workforce” with virtual agents that can assist customers with vital information at any time of the day or night. IVR allows for our clients’ customers to deal interactively with our system to handle basic customer inquiries, such as account balance, order status, shipment status and customer satisfaction surveys. The inclusion of IVR in our service offering allows us to offer a cost effective way to handle high volume, low complexity calls.

Financial Services

Protecting our clients' brand with secure payment processing and fraud management services is critical to a successful operation. We also provide flexible global payment options as well as gift cards, B2B invoicing, and VAT services.

Our financial services are divided into two major areas: 1) billing, credit, collection and cash application services for B2B clients and 2) fraud review, chargeback management and processing and settlement of credit card services for DTC clients.

Business-to-Business Financial Management. For B2B clients, we offer full-service accounts receivable management and collection capabilities, including the ability to generate customized invoices in our clients' names. We assist clients in reducing accounts receivable and days sales outstanding, while minimizing costs associated with maintaining an in-house collections staff. We offer electronic credit services in the format of EDI and XML communications direct from our clients to their vendors, suppliers and retailers.

Direct-to-Consumer Financial Management. For DTC clients, we offer secure credit card processing related services for orders made via a client web site or through our customer contact center. We offer manual credit card order review as an additional level of fraud protection. We also calculate sales taxes, goods and services taxes or value added taxes, if applicable, for numerous taxing authorities and on a variety of products. Using third-party leading-edge fraud protection services and risk management systems, we can offer high levels of security and reduce the level of risk for client transactions.

INDUSTRY INFORMATION AND COMPETITIVE LANDSCAPE

Industry Overview

Business activities in the public and private sectors continue to operate in an environment of rapid technological advancement, increasing competition and continuous pressure to improve operating and supply chain efficiency while decreasing costs. We currently see the following trends within the industry:

- Manufacturers strive to restructure their supply chains to maximize efficiency and reduce costs in both B2B and DTC markets, and to create a variable-cost supply chain able to support the multiple, unique needs of each of their initiatives, including traditional and electronic commerce.

- Companies in a variety of industries seek outsourcing as a method to address one or more business functions that are not within their core business competencies, to reduce operating costs or to improve the speed or cost of implementation.

- Retailers, both traditional and e-commerce only, partner with end to end providers to provide a turnkey solution to support their e-commerce channels. Providers with a global presence provide additional value to companies pursuing an international expansion strategy.

Supply Chain Management Trend

As companies maintain focus on improving their businesses and balance sheet financial ratios, significant efforts and investments continue to be made identifying ways to maximize supply chain efficiency and extend supply chain processes. Working capital financing, vendor managed inventory, supply chain visibility software solutions, distribution channel skipping, direct to consumer eCommerce sales initiatives, and complex upstream supply chain collaborative technology are products that manufacturers seek to help them achieve greater supply chain efficiency.

A key business challenge facing many manufacturers and retailers as they evaluate their supply chain efficiency is determining how the trend toward increased DTC business activity will impact their traditional B2B and DTC

commerce business models. Order management and small package fulfillment and distribution capabilities are becoming increasingly important processes as this trend evolves. We believe manufacturers will look to outsource their non-core competency functions to support this modified business model. We believe companies will continue to strategically plan for the impact that eCommerce and other new technology advancements will have on their traditional commerce business models and their existing technology and infrastructure capabilities. Additionally, B2B opportunities exist as companies look to leverage the technology and enhanced customer experience that currently exists within eCommerce channels.

Manufacturers, as buyers of materials, are also imposing new business practices and policies on their supplier partners to shift the normal supply chain costs and risks associated with inventory ownership away from their own balance sheets. Through techniques like Vendor Managed Inventory or Consigned Inventory Programs, manufacturers are asking their suppliers, as a part of the supplier selection process, to provide capabilities where the manufacturer need not own, or even possess, inventory prior to the exact moment that unit of inventory is required as a raw material component or for shipping to a customer. To be successful for all parties, business models such as these often require a sophisticated collection of technological capabilities that allow for complete integration and collaboration of the information technology environments of both the buyer and supplier. For example, for an inventory unit to arrive at the precise required moment in the manufacturing facility, it is necessary for the Manufacturing Resource Planning systems of the

manufacturer to integrate with the CRM systems of the supplier. When hundreds of supplier partners are involved, this process can become quite complex and technologically challenging. Buyers and suppliers are seeking solutions that utilize XML based protocols and traditional EDI standards to ensure an open systems platform that promote easier technology integration in these collaborative solutions.

Outsourcing Trend

In response to growing competitive pressures and technological innovations, we believe many companies, both large and small, are focusing their critical resources on the core competencies of their business and utilizing eCommerce service providers to accelerate their business plans in a cost-effective manner and perform non-core business functions. Outsourcing can provide many key benefits, including the ability to:

- Enter new business markets or geographic areas rapidly;
- Increase flexibility to meet changing business conditions and demand for products and services;
- Enhance customer satisfaction and gain competitive advantage;
- Reduce capital and personnel investments and convert fixed investments to variable costs;
- Improve operating performance and efficiency; and
- Capitalize on skills, expertise and technology infrastructure that would otherwise be unavailable or expensive given the scale of the business.

Typically, many outsourcing service providers are focused on a single function, such as information technology, call center management, credit card processing, warehousing or package delivery. This focus creates several challenges for companies looking to outsource more than one of these functions, including the need to manage multiple outsourcing service providers, to share information with service providers and to integrate that information into their internal systems. Additionally, the delivery of these multiple services must be transparent to the customer and enable the client to maintain brand recognition and customer loyalty. Furthermore, traditional commerce outsourcers are frequently providers of domestic-only services versus international solutions. As a result, companies requiring global solutions must establish additional relationships with other outsourcing parties.

Another vital point for major brand name companies seeking to outsource is the protection of their brand. When looking for an outsourcing partner to provide infrastructure solutions, brand name companies must find a company that can provide the same quality performance and superior experience their customers expect from their brands. Working with an outsourcing partner requires finding a partner that can maintain the consistency of their brand image, which is one of the most valuable intangible assets that recognized brand name companies possess.

Competition

We face competition from many different sources depending upon the type and range of services requested by a potential client. Many other companies offer one or more of the same services we provide on an individual basis. For operations services, our competitors include vertical outsourcers, which are companies that offer a single function solution. We compete with transportation logistics providers, known in the industry as 3PL's and 4PL's (third or fourth party logistics providers), who offer product management functions as an ancillary service to their primary transportation services. For professional services, we compete against Global Commerce Service Providers, who perform various services similar to our solution offerings. Additionally, we see competition from digital agencies providing creative, commerce strategy and system integration services. In many instances, PFSweb competes with the in-house operations of our potential clients. Occasionally, the operations departments of potential clients believe they can perform the same services we do, at similar quality levels and costs, while others are reluctant to outsource business functions that involve direct customer contact. We cannot be certain we will be able to compete successfully against these or other competitors in the future.

Although many of our competitors offer one or more of our services, we believe our primary competitive advantage is our ability to offer a full array of customized services, thereby eliminating any need for our clients to coordinate these services from many different providers. We believe we can differentiate ourselves by offering our clients a very broad range of eCommerce and business process services that address, in many cases, the entire value chain, from demand to delivery.

We also compete on the basis of many other important additional factors, including:

- experience supporting a specific product vertically;
- operating performance and reliability;
- ease of implementation and integration;

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- experience of the people required to successfully and efficiently design and implement solutions;
- experience operating similar solutions dynamically;
- leading edge technology capabilities;
- global reach; and
- price.

We believe we can compete favorably with respect to many of these factors. However, the market for our services is competitive and continually evolving, and we may not be able to compete successfully against current and future competitors.

Competitive Landscape

Global Commerce Service Providers. We compete with companies that provide a global solution for digital strategy services and commerce implementation such as Accenture Digital, Deloitte Digital, Capgemini and SapientRazorfish.

End-to-end Commerce. In North America, we compete with full service commerce providers such as Trade Global and OneStop, as well as other providers such as BrandShop and Newgistics. In the European market, we compete with companies such as Arvato, Yoox and other geographically focused providers in Western Europe.

Design and Digital Marketing Services. We compete with a wide range of digital agency firms, including Fluid, Huge, AKQA, and Digitas LBI.

Technology Services. Globally, we compete with a wide range of technology services providers or systems integrators, including providers such as Astound Commerce, OSF, Optaros, Gorilla Group, Object Edge, and Lyons CG.

Operations. We compete with eCommerce focused order fulfillment providers such as Radial and GEODIS (formerly OHL), as well as, depending on the client's retail and/or supply chain strategy, Excel Logistics, UPS Logistics, and other "pure-play" fulfillment or call center providers.

COMPANY INFORMATION

Clients and Marketing

Our target clients include traditional retailers, online retailers and leading technology and consumer goods brands looking to quickly and efficiently implement or enhance business initiatives, adapt their go-to-market strategies, or introduce new products, programs or geographies, without the burden of modifying or expanding their technology, customer care, supply chain and logistics infrastructure. Our solutions are applicable to a multitude of industries and company types and we have provided solutions for such companies as:

Procter & Gamble (consumer packaged goods), L'Oréal (health & beauty), T.J. Maxx (apparel and home fashion), Canada Goose (outdoor apparel), Roots Canada Ltd. (apparel), Ricoh (printer supplies), Xerox (printers and printer supplies), Pandora (jewelry), Charlotte Russe (fashion), among many others.

We target potential clients through an extensive integrated marketing program comprised of a variety of direct marketing techniques, email marketing initiatives, trade event participation, search engine marketing, public relations, social media and a sophisticated outbound tele-sales lead generation model. We have also developed a global business development methodology which allows us to effectively showcase our various eCommerce service solutions and products. We also pursue strategic marketing alliances with consulting firms, software manufacturers and other logistics providers to increase market awareness and generate referrals and customer leads.

Because of the highly complex nature of the solutions we provide, our clients demand significant competence and experience from a variety of different business disciplines during the sales cycle. As such, we often utilize a member of our executive team to lead the design and proposal development of each potential new client we choose to pursue. The executive is supported by a select group of highly experienced individuals from our professional services group with specific industry knowledge of, or experience with, the solutions development process. We employ a team of highly trained implementation managers whose responsibilities include the oversight and supervision of client projects and maintaining high levels of client satisfaction during the transition process between the various stages of the sales cycle and steady state operations.

Technology

We maintain advanced management information systems and have automated key business functions using online, real-time or batch systems. These systems enable us to provide information concerning sales, inventory status, customer payments and other

operations essential for us and our clients to efficiently manage electronic commerce and supply chain business programs. Our systems are designed to scale rapidly to handle the transaction processing demands of our clients and our growth.

Many internal infrastructures are not sufficient to support the explosive growth in e-business, e-marketplaces, supply chain compression, distribution channel realignment and the corresponding demand for real-time information necessary for strategic decision-making and product fulfillment. To address this need, we have created PFSweb's End2End eCommerce® platform to enable companies with little or no eCommerce infrastructure to speed their time to market and minimize resource investment and risk, and to allow all companies involved to improve the efficiency of their supply chain.

Using the various components of our collaboration technology suite, we can assist our clients in easily integrating their web sites or ERP systems to our systems for real-time web service enabled transaction processing without regard for their hardware platform or operating system. This high-level of systems integration allows our clients to automatically process orders, customer data and other eCommerce information. We also can track information sent to us by the client as it moves through our systems in the same manner a carrier would track a package throughout the delivery process. Our systems enable us to track, at a detailed level, information received, transmission timing, any errors or special processing required and information sent back to the client.

We have invested in advanced telecommunications, computer telephony, electronic mail and messaging, automated fax technology, IVR technology, barcode scanning, wireless technology, fiber optic network communications and automated inventory management systems. We have also developed and utilize telecommunications technology that provides for automatic customer call recognition and customer profile recall for inbound customer service representatives.

The primary responsibility of our systems development team of IT professionals is directed at implementing custom solutions for new clients and maintaining existing client relationships. Our development team can also produce proprietary systems infrastructure to expand our capabilities in circumstances where we cannot purchase standard solutions from commercial providers. We also utilize temporary and/or contract resources when needed for additional capacity.

Our information technology operations and infrastructure are built on the premise of reliability and scalability. We maintain diesel generators and un-interruptible power supply equipment to provide constant availability to computer rooms, call centers and warehouses. Multiple internet service providers and redundant web servers provide for a high degree of availability to web sites that interface with our systems. Capacity planning and upgrading is performed regularly to allow for quick implementation of new clients and avoid time-consuming infrastructure upgrades that could slow growth rates. In the event of a disastrous situation, we also have a disaster recovery plan that provides geographically separated and comparably equipped data centers that are able to recover stored data in a reasonable and effective manner.

Employees

As of December 31, 2017, we had approximately 2,550 employees, of which approximately 1,600 were located in the United States. We have never suffered an interruption of business as a result of a labor dispute. We consider our relationship with our employees to be good. In the U.S., Canada and India, we are not a party to any collective bargaining agreements and while our European subsidiaries are not a party to a collective-bargaining agreement, certain of them are required to comply with certain rules agreed upon by their employee Works Councils.

Our success in recruiting, hiring and training large numbers of skilled employees and obtaining large numbers of hourly employees and temporary staff during peak periods for distribution and call center operations is critical to our ability to provide high quality distribution and support services. Call center representatives and distribution personnel receive feedback on their performance on a regular basis and, as appropriate, are recognized for superior performance or given additional training. Generally, our clients provide specific product training for our customer service representatives and, in certain instances, on-site client personnel to provide specific technical support. To maintain good employee relations and to minimize employee turnover, we strive to offer competitive pay, hire primarily full-time employees who are eligible to receive a full range of employee benefits, and provide employees with clear, visible career paths.

Internet Access to Reports

We maintain a website, www.corporate.pfsweb.com, for Investor Relations. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K (and amendments, if any, to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934) are made available, free of charge, through the investor relations section of this website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The information on this website is not incorporated in this report.

Government Regulation

We are subject to federal, state, local and foreign consumer protection laws, including laws protecting the privacy of our customers' personally identifiable information and other non-public information and regulations prohibiting unfair and deceptive trade practices. Furthermore, the growth and demand for online commerce has and may continue to result in more stringent consumer protection laws that impose additional compliance burdens and greater penalties on online companies. Moreover, there is a trend toward regulations requiring companies to provide consumers with greater information regarding, and greater control over, how their personal data is used, and requiring notification when unauthorized access to such data occurs. For example, many states currently require us to notify each of our customers who are affected by any data security breach in which an unauthorized person, such as a computer hacker, obtains such customer's name and one or more of the customer's social security number, driver's license number, credit or debit card number or other similar personal information. In addition, several jurisdictions, including foreign countries, have adopted privacy-related laws that restrict or prohibit unsolicited email promotions, commonly known as "spam," and that impose significant monetary and other penalties for violations.

In an effort to comply with these laws, internet service providers may increasingly block legitimate marketing emails. These consumer protection laws may become more stringent in the future and could result in substantial compliance costs and could interfere with the conduct of our business. Also, an increasing number of countries have introduced and/or increased enforcement of comprehensive privacy laws, or are expected to do so. In Europe, a new data protection regulation will likely come into effect in 2018 and will supersede Directive 95/46/EC, which has governed the processing of personal data since 1995. The new regulation will enhance the security and privacy obligations of entities that process data of residents of members of the European Economic Area and substantially increase penalties for violations. In addition, the European Court of Justice has invalidated a decision of the European Commission that permitted our European affiliates and our European customers to transfer personal data to us and other entities in the United States that are certified under the EU-US safe harbor framework. This decision, a failure of the European Union and the United States to implement a new safe-harbor framework, and new regulations and laws in other countries that restrict the export of personal data may require us to increase our IT infrastructure, maintenance and support costs.

Item 1A. Risk Factors

Our business, financial condition and operating results could be adversely affected by any or all of the following factors, in which event the trading price of our common stock could decline, and you could lose part or all of your investment.

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 December 31, 2017, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of Ricoh product inventory for a client, was approximately \$54.4 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. Certain of 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 our subsidiary 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 and future growth depend on our continued access to bank and commercial financing.

Our business and future growth currently depend on our ability to access bank, vendor and commercial lines of credit. We currently depend on line of credit facilities provided by various banks and commercial lenders that provided for an aggregate of up to approximately \$77.5 million in available financing as of December 31, 2017. These lines of credit currently mature at dates through August 2020 and are secured by substantially all our assets. Our ability to renew our lines of credit depends upon various factors, including the availability of bank loans and commercial credit in general, as well as our financial condition and prospects. Therefore, we cannot guarantee that these credit facilities will continue to be available beyond their current maturities on reasonable terms or at all. Our inability to renew or replace our credit facilities or find alternative financing would have a material adverse affect on our business, financial condition, operating results and cash flow.

We are uncertain about the availability of additional capital.

We may require additional capital to take advantage of opportunities, including strategic alliances and acquisitions, and to fund capital expenditures, or to respond to changing business conditions and unanticipated competitive pressures. We may also require additional funds to finance operating losses. Should these circumstances arise, our existing cash balance and credit facilities may be

insufficient and we may need to raise additional funds either by borrowing money or issuing additional equity or both. We cannot assure you that such resources will be adequate or available for all of our future financing needs. Our inability to finance our growth, either internally or externally, may limit our growth potential and our ability to execute our business strategy. If we are successful in completing an additional equity financing, this could result in further dilution to our shareholders' ownership or reduce the market value of our common stock.

We anticipate incurring significant expenses in the foreseeable future, which may reduce our ability to achieve or maintain profitability.

To reach our business growth objectives, we currently expect to increase our operating, sales, and marketing expenses, as well as capital expenditures. To offset these expenses, we will need to generate additional profitable business. If our revenue declines or grows slower than either we anticipate or our clients' projections indicate, or if our operating, sales and marketing expenses exceed our expectations or cannot be reduced to an appropriate level, we may not generate sufficient revenue to be profitable or be able to sustain or increase profitability on a quarterly or annual basis in the future. Additionally, if our revenue grows slower than either we anticipate or our clients' projections indicate, we may incur unnecessary or redundant costs and our operating results could be adversely affected.

Our service fee revenue and gross margin are dependent upon our clients' business and transaction volumes and our costs. A reduction in our clients' ecommerce business or our inability to grow our business or increase service fee revenue from new or existing clients could negatively impact our operating results.

Our service fee revenue is primarily transaction and project based and fluctuates with the volume of transactions or level of sales of the products by our clients for whom we provide omni-channel services and the size and scope of projects for clients for whom we perform technology and agency services. If we are unable to retain existing clients or attract new clients, or if we dedicate significant resources to clients whose business does not generate revenues at projected levels or sufficient revenues, or whose products do not generate substantial customer sales, our business may be materially adversely affected in a number of ways.

For example, we seek to maintain sufficient capacity in our fulfillment, call center and professional services operations and computer technology systems to support our projected existing and new client business activity, including seasonal volumes and we currently plan on increasing capacity to support future projected growth. The fixed cost structure of many of these investments limits our flexibility to reduce our costs when excess capacity occurs. A reduction in our clients' business or our inability to grow our business or increase service fee revenue from new or existing clients could result in an underutilization in our invested assets. While certain of our building leases permit early termination in advance of their regular scheduled maturity date, these early terminations would require incremental termination related payments which reduce the potential benefit of this flexibility.

Similarly, salaries and payroll-related expenses are a significant component of our costs. Balancing our workforce levels against the demands for our services is difficult. We generally cannot reduce our labor costs as quickly as negative changes in revenue may occur. We may retain underutilized employees to maintain scalability to meet client demand. We must maintain our utilization at an appropriate rate to achieve our desired level of profitability. If we are unable to achieve and maintain our target utilization rates, our profitability could be adversely impacted. Further, if labor costs increase, this could put upward pressure on our costs and adversely affect our profitability if we are unable to recover these increased costs by increasing the prices for our services.

Moreover, our ability to estimate service fee revenue for future periods is substantially dependent upon our clients' and our own projections, the accuracy of which has been, and will continue to be, unpredictable. Therefore, our planning for client activity and targeted goals for service fee revenue and gross margin may be materially adversely affected by incomplete, delayed or inaccurate projections. In addition, most of our service agreements with our clients are

non-exclusive and we cannot assure you any of our clients will continue to use our services for any period of time. The loss of a significant amount of service fee revenue due to client terminations or material reductions in the services provided to one or more clients could have a material adverse effect on our ability to cover our costs and thus on our profitability.

We may incur financial penalties if we fail to meet contractual service levels under client service agreements.

Many of our client service agreements contain minimum service level requirements and impose financial penalties if we fail to meet such requirements. The imposition of a substantial amount of such penalties could have a material adverse effect on our business and operations. In the event we are unable to meet the service levels expected by the client, our relationship with the client will suffer and may result in financial penalties and/or the termination of the client contract.

We are dependent on our key personnel, and if we are unable to keep our supply of skills and resources in balance with client demand and attract and retain skilled professionals, our business, the utilization rate of our professionals and our results of operations may be materially adversely affected.

Our performance is highly dependent on the continued services of our executive officers and other key personnel, the loss of any of whom could materially adversely affect our business. In addition, we need to attract and retain other highly-skilled, technical and managerial personnel for whom there is intense competition. For example, if we are unable to hire or continually train our employees

to keep pace with the rapid and continuing changes in technology and the markets we serve or changes in the types of services our clients are demanding, we may not be able to develop and deliver new services and solutions to fulfill client demand. As we expand our services and solutions, we must also hire and retain an increasing number of professionals with different skills and expectations than those of the professionals we have historically hired and retained. We cannot assure you we will be able to attract and retain the personnel necessary for the continuing growth of our business. Our inability to attract and retain qualified technical and managerial personnel could materially adversely affect our ability to maintain and grow our business significantly.

Our business may suffer if we are unable to hire and retain sufficient temporary workers or if labor costs increase.

We regularly hire a large number of part-time and seasonal workers, particularly during the fourth quarter holiday season and to meet temporary increases in client activity volume related to “flash sales” and other short-term marketing programs. Any difficulty we may encounter in hiring such workers could result in significant increases in labor costs, or inability to support our clients’ business, which could have a material adverse effect on our business, financial condition and results of operations. We may also hire more full-time and part-time employees to mitigate the risk of the unavailability of temporary workers, and our failure to maintain an appropriate mix of labor personnel may result in higher costs. Competition for labor could also substantially increase our labor costs. Although we seek to preserve the contractual ability to pass through increases in labor costs to our clients, not all of our current contracts provide us with this protection, and we may enter into contracts in the future, which limit or prohibit our ability to pass through increases in labor costs to our clients.

Our expenses could be adversely impacted by increases in healthcare costs.

We provide healthcare benefits to our employees. Increased costs of providing such benefits, including potential impact from modifications to healthcare legislation and related regulations, could materially impact our future healthcare costs, which would adversely affect our results and cash flow.

Our business is susceptible to risks associated with international operations.

Outside of the United States, we currently maintain distribution facilities, call centers, technology centers, administrative offices and/or have sales personnel in Belgium, Canada, India, Bulgaria and U.K., and we currently intend to expand our international operations. We cannot assure you we will be successful in expanding in these or any additional international markets. In addition, we may face competition from companies that may have more experience with operations in these countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. In addition to the uncertainty regarding our ability to generate revenue or profits from foreign operations and expand our international presence, there are risks inherent in doing business internationally that we have not generally faced in our U.S. operations, including:

- lack of familiarity with, and resulting risk of breach of, and/or unanticipated additional cost of compliance with, foreign laws and regulations governing privacy, data security, data transfer, employment, taxes, tariffs, trade restrictions, transfer pricing and other matters;
- changes in regulatory environments;
- difficulties and expenses associated with localizing our services and operations to local markets, including language and cultural differences;
- difficulties in staffing and managing international operations, including complex and costly hiring, disciplinary, and termination requirements;
- the complexities of foreign value-added taxes and restrictions on the repatriation of earnings;
- reduced or varied protection for intellectual property rights in some countries;

political, social and economic instability abroad, terrorist attacks and security concerns;
fluctuations in currency exchange rates; and
increased accounting and reporting burdens and complexities.

Additionally, operating in international market requires significant management attention and financial resources. We cannot be certain that the investments and additional resources required to establish and maintain operations in other countries will hold their value or produce desired levels of revenues or profitability. Any negative impact from our international business efforts could negatively impact our business, results of operations and financial condition as a whole.

Our financial results may be adversely affected by fluctuations in the foreign currency exchange markets.

The revenues and expenses of our international operations generally are denominated in local currencies. Accordingly, we are subject to exchange rate fluctuations between such local currencies and the U.S. dollar. These exchange rate fluctuations subject us to currency translation risk with respect to the reported results of our international operations. Significant strengthening or weakening of

the U.S. dollar against currencies like the Canadian Dollar, British Pound and the Euro may materially impact our revenue and profits. As we continue to expand our presence in India, we will have increased exposure to fluctuations between the Indian Rupee and the U.S. dollar. In addition, we have transactions with clients, as well as inter-company transactions between our subsidiaries, that cross currencies and expose us to foreign currency gains and losses. These types of events are difficult to predict and may recur. There can be no assurance that we will be able to reduce the currency risks associated with our international operations. We seek to manage our exposure to changes in foreign currency exchange rates through our normal operating and financing activities and, if deemed appropriate, we may use derivative financial instruments. There is no assurance that we will be successful in managing or controlling foreign currency risks.

We may engage in future strategic alliances or acquisitions that could dilute our existing shareholders' ownership, cause us to incur significant expenses or harm our business. Acquisitions can result in an increase in our operating costs, divert management's attention away from other operational matters and expose us to other risks associated with acquisitions.

We have pursued an acquisition strategy designed to enhance or add to our offerings of services and solutions, or to enable us to expand in certain geographic and other markets, and we may continue to seek appropriate acquisition candidates. We may not succeed in completing targeted transactions, or achieve desired results of operations. Furthermore, we face risks in successfully integrating any businesses we acquire. Ongoing business may be disrupted and our management's attention may be diverted by acquisitions, transition or integration activities. In addition, we might need to dedicate additional management and other resources, and our organizational structure could make it difficult for us to efficiently integrate acquired businesses into our ongoing operations and assimilate and retain employees of those businesses into our culture and operations.

We might fail to realize the expected benefits or strategic objectives of any acquisition we make. We might not achieve our expected return on investment, or we may lose money. We may be adversely impacted by liabilities that we assume from a company we acquire, including from that company's known and unknown obligations, intellectual property or other assets, terminated employees, current or former clients, or other third parties, and we may fail to identify or adequately assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquisition, which could result in unexpected legal or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes, or other adverse effects on our business. If we are inefficient or unsuccessful at integrating any acquired businesses into our operations, we may not be able to achieve our planned rates of growth or improve our market share, profitability, or competitive position in specific markets or services.

In addition, acquisitions involve further risks, such as:

- lack of synergy, or inability to realize expected synergies, resulting from the acquisition;
- the risk that the issuance of our common stock, if any, in an acquisition or merger, or the consolidation of an acquired company's financial results could be dilutive to our shareholders;
- acquired assets becoming impaired as a result of technological advancements or worse-than-expected performance of the acquired company;
- the potential impact of the announcement or consummation of a proposed transaction on the market value of our common stock or relationships with third parties;
- reductions in cash balances and/or increases in debt obligations to finance activities associated with a transaction, including future payments under earn-outs and other contingent payments, which reduce the availability of cash flow for general corporate or other purposes or impact our financial results; and
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or other policies or practices; and unknown, underestimated and/or undisclosed commitments or liabilities.

Our financial results may be negatively impacted by impairment in the carrying value of our goodwill.

Goodwill represented approximately 25% of our total assets as of December 31, 2017. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. We are required to test goodwill for impairment annually and when factors or indicators become apparent that could reduce the fair value of any of our reporting units below its book value. Such factors requiring an interim test for impairment include financial performance indicators, such as negative or declining cash flows or a decline in actual or planned revenue or earnings, and a sustained decrease in share price. A significant downward revision in the fair value of one or more of our business units that causes the carrying value to exceed the fair value could cause goodwill to be considered impaired, and could result in a non-cash impairment charge in our consolidated statement of operations.

Our business and profitability could be adversely affected if the operations of one or more of our facilities were interrupted or shut down as the result of a natural disaster.

We operate a majority of our distribution facilities in the Memphis, Tennessee area and our headquarters and call center operations are centered in the Dallas, Texas area. We also maintain facilities in Canada, Europe and India. A natural disaster or other

serious disruption to our facilities due to fire, tornado, flood, severe weather or any other cause could substantially disrupt our operations and could impair our ability to adequately service our clients and customers. In addition, we could incur significantly higher costs during the time it takes for us to reopen or replace any one or more of our facilities, which may or may not be reimbursed by insurance. As a result, disruption at one or more of our facilities could adversely affect our business and profitability.

A breach of our eCommerce security measures could reduce demand for our services. Credit card fraud and other fraud could adversely affect our business.

A requirement of the continued growth of eCommerce is the secure transmission of confidential information over public networks. A party who is able to circumvent our security measures could misappropriate proprietary information or interrupt our operations. Any compromise or elimination of our security could reduce demand for our services.

We may be required to expend significant capital and other resources to protect against security breaches or to address any problem they may cause. Because our activities involve the storage and transmission of proprietary information, such as credit card numbers, security breaches could damage our reputation, cause us to lose clients, impact our ability to attract new clients and we could be exposed to litigation and possible liability. Our security measures may not prevent security breaches, and failure to prevent security breaches may disrupt our operations. The failure to adequately control fraudulent transactions on either our behalf or our client's behalf could increase our expenses and expose us to reputational damage which would adversely affect our business.

We may be liable for misappropriation of our customers' and our clients' customers' personal information.

Data security laws are becoming more stringent in the United States and abroad. Third parties are engaging in increased cyber-attacks against companies doing business on the internet and individuals are increasingly subjected to identity and credit card theft on the internet. If third parties or unauthorized employees are able to penetrate our network security or otherwise misappropriate our customers' or our clients' customers' personal information or credit card information, or if we give third parties or our employees' improper access to customers' personal information or credit card information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims, as well as claims for other misuses of personal information, including unauthorized marketing purposes. Liability for misappropriation of this information could decrease our profitability and adversely affect our business. In such circumstances, we also could be liable for failing to provide timely notice of a data security breach affecting certain types of personal information. In addition, the Federal Trade Commission and state agencies have brought numerous enforcement actions against internet companies for alleged deficiencies in those companies' privacy and data security practices, and they may continue to bring such actions. We could incur additional expenses if new regulations regarding the collection, use or storage of personal information are introduced or if government agencies investigate our privacy or security practices.

We rely on encryption and authentication technology to provide the security and authentication necessary to effect secure transmission of sensitive customer information such as customer credit card numbers. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the measures that we use to protect customer transaction data. If any such compromise of security were to occur, it could subject us to liability, damage our reputation and diminish the value of our brand-name. A party who is able to circumvent the security measures could misappropriate proprietary information or cause interruptions in operations. We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Our security measures are designed to prevent security breaches, but our failure to prevent such security breaches could subject us to liability, damage our reputation and diminish the value of our brand-name.

Our insurance policies may not fully cover all losses we may incur.

Although we attempt to limit our liability for damages arising from negligent acts, errors or omissions through contractual provisions, the limitations of liability included in our contracts may not fully protect us from liability or damages and may not be enforceable in all instances. In addition, not all of our contracts may limit our exposure for certain liabilities, such as data security claims or claims of third parties for which we may be required to indemnify our clients. Although we have general liability and errors and omissions insurance coverage, this coverage may not continue to be available on terms reasonable to us or in sufficient amounts to cover one or more large claims, and our insurers may disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that are excluded from our insurance coverage or that exceed our available insurance coverage, or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Changes in regulations, regulatory scrutiny, or user concerns regarding privacy and protection of user data could adversely affect our business.

We are subject to U.S. and foreign laws relating to the collection, use, retention, security and transfer of personally identifiable information. The interpretation and application of user data protection laws are in a state of flux, and may vary from country to country. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between or among ourselves, our subsidiaries and other parties with which we have commercial relations. Further, these laws continue to develop in ways

we cannot predict and which may adversely impact our business. For example, new laws or regulations, in particular, financial or privacy laws or regulations, may be enacted in jurisdictions in which we do business that require data (including customer information, transaction data or other information) to be stored locally on servers in that jurisdiction and/or prohibit such data from being transmitted outside of that jurisdiction, which would increase our operational costs or capital expenditures and potentially impact the performance or availability of our services and/or our ability to use or process customer data.

On October 6, 2015, the Court of Justice of the European Union (“CJEU”) invalidated the long-standing U.S.-EU Safe Harbor Framework, which previously established means for legitimizing the transfer of personal data by U.S. companies from the European Economic Area (“the EEA”) to the U.S. The EU Parliament approved General Data Protection Regulation (GDPR (Regulation (EU) 2016/679) on April 14, 2016. This regulation replaces the Data Protection Directive 95/46/EC and is designed to harmonize data privacy across EU members and protect the privacy of EU citizens. In light of the CJEU decision, we are reviewing our business practices and may find it necessary or desirable to make changes to our handling of personal data to comply with new requirements under applicable European law. We may be unsuccessful in establishing legitimate means for our transfer and receipt of personal data from the EEA or otherwise responding to the CJEU decision or new European requirements, and we may experience reluctance or refusal by current or prospective European customers to use our services. We may be required to assume additional liabilities or incur additional costs, and our business, operating results and financial condition may be materially adversely affected. Because of the uncertainty arising from the CJEU decision, we may face a risk of enforcement actions by data protection authorities in the EEA. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results and financial condition.

We or our clients may be a party to litigation involving our eCommerce intellectual property rights. If third parties claim we or our clients are infringing their intellectual property rights, we could incur significant litigation costs, be required to pay damages, or change our business or incur licensing expenses.

Third parties have asserted, and may in the future assert, that our business or the technologies we use infringe on their intellectual property rights. As a result, we or our clients may be subject to intellectual property legal proceedings and claims in the ordinary course of business. We cannot predict whether third parties will assert claims of infringement in the future or whether any future claims will prevent us from offering popular products or services. If we or our clients are found to infringe, we may be required to pay monetary damages, which could include treble damages and attorneys’ fees for any infringement that is found to be willful, and either be enjoined or required to pay ongoing royalties with respect to any technologies found to infringe. Further, as a result of infringement claims either against us or our clients, we may be required, or deem it advisable, to develop non-infringing technology, which could be costly and time consuming, or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable, or at all. If a third party successfully asserts an infringement claim against us or our clients and we are enjoined or required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar technology on reasonable terms on a timely basis, our business, results of operations and financial condition could be materially harmed.

We rely on third party providers for a portion of our client services, and we are subject to various risks and liabilities if we are unable to continue our relationship with such providers, such providers do not provide the third party services or provide them in a manner that does not meet required service levels.

We currently, and may in the future, rely on third party providers to provide various material portions of our solution service offering. If our business relationship with a third-party provider of a material portion of our solution service offering is negatively affected, or is terminated, we might not be able to deliver the corresponding service offering to

our clients, which could cause us to lose clients and future business, reducing our revenues. Under the terms of several of our contracts with our service clients, we remain liable to provide such third party services and may be liable for the actions and omissions of such third party providers. In certain instances, certain clients prepay in advance a portion of the service fees payable in respect of the third party services, and, under certain circumstances, including our breach or the breach by our third party provider of our or their respective obligations, we are liable to refund all or a portion of such prepaid fees. Consequently, in the event our third party provider fails to provide the third party services in compliance with required services levels, or otherwise breaches its obligations, or discontinues its business, whether as the result of bankruptcy, insolvency or otherwise, we may be required to provide such services at a higher cost to us and may otherwise be liable for various costs and expenses related to such event. In addition, any such failure may damage our reputation and otherwise result in a material adverse effect upon our business and financial condition.

We may incur liability for indemnification obligations under our contracts with our clients and business partners, which may have a material adverse effect upon our business, results of operations and financial condition.

We include indemnification provisions in the contracts we enter into with our clients and business partners. Generally, the provisions require us to defend claims arising out of our infringement of third-party intellectual property rights, breach of contractual obligations and/or unlawful or otherwise culpable conduct, including breach of data security. The indemnity obligations generally cover damages, costs and attorneys' fees arising out of such claims. In many instances, our indemnification obligations to our clients include the actions or omissions of our third-party service providers. Although we seek to limit our total liability under such

provisions to either a portion of the value of the contract or a specified, agreed-upon amount, in some cases our total liability under such provisions is unlimited. Although in many cases our third party service providers indemnify us for their actions and omissions, such providers may dispute or be unable to satisfy their indemnification obligation to us. In addition, our indemnification obligation to our clients may be broader in scope, or may be subject to larger limitations of liability, than the indemnification obligation of our third party service providers to us. In most cases, the term of the indemnity provision is perpetual. If we are required to indemnify a claim in a material amount, or if a series of indemnification claims are in the aggregate a material amount, we may be required to expend significant resources to defend the claims, which may have a material adverse effect upon our business, results of operations and financial condition.

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 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 Company Limited and Ricoh USA, Inc., a strategic business unit within the Ricoh Family Group of Companies (collectively hereafter referred to as "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 material reduction in the Ricoh business may have a material adverse effect on Supplies Distributors' business and the termination of the Ricoh business would adversely affect our overall profitability.

Our operating results are materially impacted by our client mix and the seasonality of their business.

Our business is materially impacted by our client mix and the seasonality of their business. Based upon our current client mix and their current projected business volumes, we anticipate our service fee revenue business activity will be at its highest in our fourth quarter. We are unable to predict how the seasonality of future clients' business may affect our quarterly revenue and whether the seasonality may change due to modifications to a client's business. As such, 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.

Our systems may not accommodate significant growth in our number of clients; we may incorrectly design client solutions.

Our success depends on our ability to handle a large number of transactions for many different clients in various product categories and to design client solutions that are effective and profitable. We expect the volume of transactions will increase significantly as we expand our operations. In addition, client marketing programs, such as "secret sales", "flash sales" or holiday related promotions often result in significant short-term spikes in transaction

volumes. When this occurs, additional stress is placed upon our network hardware and software and our ability to efficiently manage our operations, and we cannot assure you of our ability to efficiently manage a large number of transactions. In addition, if we incorrectly design a client solution, we may incur additional costs to operate the solution, which may result in the client solution being unprofitable or otherwise not meeting our margin targets. If we are not able to maintain an appropriate level of operating performance, we may be in breach of our client contractual obligations, develop a negative reputation, and impair existing and prospective client relationships and our business would be materially adversely affected.

We may not be able to recover all or a portion of our start-up costs associated with one or more of our clients.

We generally incur start-up costs in connection with the planning and implementation of business process solutions for our clients. Although we generally attempt to recover these costs from the client in the early stages of the client relationship, or upon contract termination if the client terminates without cause prior to full amortization of these costs, there is a risk that the client contract may not fully cover the start-up costs or that the client will terminate the contract for cause and withhold payment of any unamortized start-up costs. To the extent start-up costs exceed the start-up fees received, certain excess costs will be expensed as incurred. Additionally, in connection with new client contracts, we may incur capital expenditures associated with assets whose primary use is related to the client solution. There is a risk that the contract may end before expected and we may not recover the full amount of our capital costs.

We face competition from many sources that could adversely affect our business; growth in our clients' ecommerce business may make it more efficient for the client to perform our services themselves.

Many companies offer, on an individual basis, one or more of the same services we do, and we face competition from many different sources depending upon the type and range of services requested by a potential client. Our competitors include vertical outsourcers, which are companies that offer a single function, such as call centers, public warehouses or professional services firms such as system integrators and digital agencies. We compete against transportation logistics providers who offer product management functions as an ancillary service to their primary transportation services. We also compete against other infrastructure service providers, who perform many similar services as us. Many of these companies have greater capabilities than we do for the single or multiple functions they provide. In addition, we compete against other professional service firms that have substantial offshore operations with lower labor costs, which enable them to offer lower pricing to potential clients. In many instances, our competition is the in-house operations of potential clients themselves. The in-house operations of potential clients often believe they can perform the same services we do, while others are reluctant to outsource business functions that involve direct customer contact. We cannot be certain we will be able to compete successfully against these or other competitors in the future.

In addition, growth in our clients' ecommerce businesses may cause a client to consider making the necessary investments to process their ecommerce operations in-house. In such event, unless we can provide a more cost-effective solution to the client, the client may choose to terminate our services. There is no assurance that we will be able to provide a more cost-effective solution, or that any such solution will not reduce our profitability or be accepted by the client.

Our sales and implementation cycles are highly variable and our ability to finalize pending contracts may cause our operating results to vary widely.

The sales cycle for our services is variable, typically ranging between several months to up to a year or longer from initial contact with the potential client to the signing of a contract. Occasionally the sales cycle requires substantially more time. Delays in signing and executing client contracts may affect our revenue and cause our operating results to vary widely. A potential client's decision to purchase our services is discretionary, involves a significant commitment of the client's resources and is influenced by intense internal and external pricing and operating comparisons. To successfully sell our services, we generally must educate our potential clients regarding the use and benefit of our services, which can require significant time and resources. Consequently, the period between initial contact and the purchase of our services is often long and subject to delays associated with the lengthy approval and competitive evaluation processes that typically accompany significant operational decisions. Additionally, the time required to finalize pending contracts and to implement our systems and integrate a new client can range from several weeks to many months. Delays in signing and integrating new clients may affect our revenue and cause our operating results to vary widely.

Our business could be adversely affected by a systems or equipment failure, whether ours or our clients.

Our operations are dependent upon our ability to protect our distribution facilities, customer service centers, computer and telecommunications equipment and software systems against damage and failures. Damage or failures could result from fire, power loss, equipment malfunctions, system failures, natural disasters and other causes. If our business is interrupted either from accidents or the intentional acts of others, our business could be materially adversely affected. In addition, in the event of widespread damage or failures at our facilities, our short-term disaster recovery and contingency plans and insurance coverage may not be sufficient.

Our clients' businesses may also be harmed from any system or equipment failures we experience. In that event, our relationship with these clients may be adversely affected, we may lose these clients, our ability to attract new clients may be adversely affected and we could be exposed to liability.

Interruptions could also result from the intentional acts of others, like hackers. If our systems are penetrated by computer hackers, or if computer viruses infect our systems, our computers could fail or proprietary information could be misappropriated.

If our clients suffer similar interruptions in their operations, for any of the reasons discussed above or for others, our business could also be adversely affected. Many of our clients' computer systems interface with our systems. If our clients suffer interruptions in their systems, the link to our systems could be severed and sales of the client's products could be slowed or stopped.

We and our clients may be subject to sales tax in one or more jurisdictions, which could adversely affect our business.

We collect sales or other similar taxes for shipments of our and our clients' goods in certain states and jurisdictions. One or more local, state or foreign jurisdictions may seek to impose sales tax collection obligations on us and other out-of-state companies, including our clients, that engage in online commerce, depending upon the nexus we or our clients may have with that jurisdiction and the product or services being performed. If unexpected sales tax obligations are successfully imposed upon us or our clients by a state or other jurisdiction, we or our clients could be exposed to substantial tax liabilities for past sales and fines and penalties for failure to collect sales taxes and we or our clients could suffer decreased sales in that state or jurisdiction as the effective cost of purchasing goods from or through us increases for those residing in that state or jurisdiction. In addition, new legislation or regulation, the application of laws and regulations from jurisdictions whose laws do not currently apply to our business or the application of existing laws and regulations to the internet and commercial online services could result in significant additional taxes or regulatory

restrictions on our business. These taxes could have an adverse effect on our cash flows and results of operations. Furthermore, there is a possibility that we or our clients may be subject to significant fines or other payments for any past failures to comply with these requirements.

Determinations under government audits could negatively affect our business.

We provide services to a U.S. government agency under a contract that provides the agency with the right to audit and review our performance under the contract, our pricing practices, our cost structure, and our compliance with applicable laws, regulations, and standards. If a government audit determines that we are in breach of our contractual terms, or have engaged in improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of the contract, suspension of payments, or disqualification from continuing to do business, or bidding on new business, with this agency and other federal agencies.

We may recognize losses or reduced profitability if we do not accurately estimate the cost of engagements conducted on a fixed-price basis.

When making a proposal for or managing a fixed-price engagement, we rely on our estimates of costs and timing for delivering our services, which may be based on limited data and could be inaccurate. If we do not accurately estimate our costs and the timing for completion of a fixed-price project, the contract for such a project could prove unprofitable or yield a profit margin that is lower than expected. Losses, if any, on fixed-price contracts are recognized when the loss is determined. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-price contracts, including delays caused by factors outside of our control, could make these contracts less profitable or unprofitable and may affect the amount of revenue, profit, and profit margin reported in any period.

Risks Related to Our Industry

Our market is subject to rapid technological change and to compete we must continually enhance our systems to comply with evolving standards.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our services and the underlying network infrastructure. If we are unable to adapt to changing market conditions, client requirements or emerging industry standards, our business could be adversely affected. The internet and eCommerce environments are characterized by rapid technological change, changes in user requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our technology and systems obsolete. Our success will depend, in part, on our ability to both internally develop and license leading technologies to enhance our existing services and develop new services. We must continue to address the increasingly sophisticated and varied needs of our clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of proprietary technology involves significant technical and business risks. We may fail to develop new technologies effectively or to adapt our proprietary technology and systems to client requirements or emerging industry standards.

Risks Related to Our Stock and/or Stockholders

Institutional shareholders hold a significant amount of our common stock and these shareholders may have conflicts of interests with the interests of our other shareholders.

As of December 31, 2017, institutional investors (including transcosmos, Inc., our largest shareholder) own or control approximately 84% of the voting power of our common stock. The interests of these shareholders may differ from our other shareholders in material respects. This concentration of voting power of our common stock may make it difficult for our other shareholders to approve or defeat matters that may be submitted for action by our shareholders, including the election of directors and amendments to our Certificate of Incorporation or Bylaws. This also may have the effect of deterring, delaying, or preventing a change in control, even when such a change in control could benefit our other shareholders. These shareholders may have the power to exert significant influence over our affairs in ways that may be adverse to the interests of our other shareholders.

The market price of our common stock may be volatile. You may not be able to sell your shares at or above the price at which you purchased such shares.

The trading price of our common stock may be subject to wide fluctuations in response to quarter-to-quarter fluctuations in operating results, announcements of material adverse events, general conditions in our industry or the public marketplace and other events or factors, including the thin trading of our common stock. In addition, stock markets have experienced extreme price and trading volume volatility in recent years. This volatility has had a substantial effect on the market prices of securities of many technology-related companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock. In addition, if our operating results differ from our

announced guidance or the expectations of equity research analysts or investors, the price of our common stock could decrease significantly.

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

The current and future issuance and/or vesting of shares of our common stock under our outstanding and future stock options, 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.

Our certificate of incorporation, our bylaws, our shareholder rights plan and Delaware law make it difficult for a third party to acquire us, despite the possible benefit to our shareholders.

Provisions of our certificate of incorporation, our bylaws, our shareholder rights plan and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. For example, our certificate of incorporation permits our Board of Directors to issue one or more series of preferred stock, which may have rights and preferences superior to those of the common stock. The ability to issue preferred stock could have the effect of delaying or preventing a third party from acquiring us. We have also adopted a shareholder rights plan. These provisions could discourage takeover attempts and could materially adversely affect the price of our stock. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit large shareholders from consummating a merger with, or acquisition of us. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock.

There are limitations on the liabilities of our directors and executive officers.

Pursuant to our bylaws and under Delaware law, our directors are not liable to us or our shareholders for monetary damages for breach of fiduciary duty, except for liability for breach of a director's duty of loyalty, acts or omissions by a director not in good faith or which involve intentional misconduct or a knowing violation of law, or any transaction in which a director has derived an improper personal benefit.

Actions of activist shareholders could be disruptive and potentially costly, and the possibility that activist shareholders may seek changes that conflict with our strategic direction could cause uncertainty about the strategic direction of our business.

Activist investors may attempt to effect changes in our strategic direction or our business objectives, or to acquire control or Board representation to advocate corporate actions such as financial restructuring, stock repurchases or sales of assets or the entire company. Activist campaigns that contest or conflict with our strategic direction could have an adverse effect on our results of operations and financial conditions, as responding to proxy contests and other actions by activist shareholders can disrupt our operations, be costly and time consuming and divert the attention of our Board and senior management from the pursuit of business strategies. These types of actions could cause significant fluctuations in our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are located in Allen, Texas, a Dallas suburb. In the U.S., we operate a distribution facility in Memphis, Tennessee, with aggregate space of more than 440,000 square feet. We also operate four additional distribution facilities totaling an aggregate of approximately 1,000,000 square feet in Southaven, Mississippi. These facilities are located approximately ten miles from the Memphis International Airport.

Internationally, we operate a distribution complex in Liège, Belgium with approximately 200,000 square feet, and distribution operations in Ontario, Canada with approximately 95,000 square feet. We also operate facilities in Bangalore, India, London, U.K., Basingstoke, U.K. and Sofia, Bulgaria, each of which provide primarily technology development and administrative support.

We lease all of our distribution and other facilities under third party leases that generally contain one or more renewal options.

We operate customer service centers in our facilities in Dallas, Texas, Liège, Belgium and Ontario, Canada. Our call center technology permits the automatic routing of calls to available customer service representatives in several of our call centers.

Item 3. Legal Proceedings

We are not party to any legal proceedings other than routine claims and lawsuits arising in the ordinary course of our business. We do not believe such claims and lawsuits, individually or in the aggregate, will have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

For information regarding the securities authorized for issuance under our equity compensation plans, refer to “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” included in Part III, Item 12 of this report.

Common Stock

Our common stock is listed, and currently trades, on the NASDAQ Capital Market under the symbol “PFSW.” The following table sets forth for the periods indicated the high and low sale price for the common stock as reported by NASDAQ:

	Price	
	High	Low
Year Ended December 31, 2016		
First Quarter	\$13.99	\$9.95
Second Quarter	\$15.87	\$9.05
Third Quarter	\$11.21	\$8.90
Fourth Quarter	\$9.60	\$6.71
Year Ended December 31, 2017		
First Quarter	\$8.69	\$6.28
Second Quarter	\$8.28	\$5.83
Third Quarter	\$8.40	\$7.21
Fourth Quarter	\$8.88	\$5.90

As of March 9, 2018, there were 109 record holders of the common stock.

Dividend Policy

We have never declared or paid cash dividends on our common stock and do not anticipate the payment of cash dividends on our common stock in the foreseeable future. We are also restricted from paying dividends under our debt agreements without the prior approval of our lenders. The payment of any future cash dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, operations, capital requirements, the general financial condition of the Company and general business conditions and the approval of our lenders. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

Comparative Stock Performance

The graph below matches our cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the Russell 2000 index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from 12/31/2012 to 12/31/2017.

	12/12	12/13	12/14	12/15	12/16	12/17
PFSweb Inc.	100.00	318.25	444.21	451.58	298.25	260.70
NASDAQ Composite	100.00	141.63	162.09	173.33	187.19	242.29
Russell 2000	100.00	138.82	145.62	139.19	168.85	193.58

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6. Selected Consolidated Financial Data

The following selected financial data should be read in conjunction with Item 8, Financial Statements and Supplementary Data and related notes and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and other financial information appearing elsewhere in this Annual Report on Form 10-K. We derived the following historical financial information from our consolidated audited financial statements for the fiscal years noted (in thousands, except per share data):

	Years Ended December 31,				
	2017	2016	2015	2014	2013
REVENUES:					
Service fee revenue	\$233,580	\$226,165	\$182,175	\$134,385	\$112,977
Product revenue, net	40,663	48,695	58,659	75,284	90,982
Pass-through revenue	52,582	59,783	47,435	37,379	37,644
Total revenues	326,825	334,643	288,269	247,048	241,603
COSTS OF REVENUES:					
Cost of service fee revenue	155,160	155,513	123,574	94,858	77,160
Cost of product revenue	38,504	45,883	55,587	71,019	85,237
Cost of pass-through revenue	52,582	59,783	47,435	37,379	37,644
Total costs of revenues	246,246	261,179	226,596	203,256	200,041
Gross profit	80,579	73,464	61,673	43,792	41,562
SELLING, GENERAL AND ADMINISTRATIVE					
EXPENSES	79,981	76,304	66,280	47,658	46,235
Income (loss) from operations	598	(2,840)	(4,607)	(3,866)	(4,673)
INTEREST EXPENSE, net	2,738	2,323	1,757	813	679
Loss from operations before income taxes	(2,140)	(5,163)	(6,364)	(4,679)	(5,352)
INCOME TAX EXPENSE (BENEFIT)	1,824	2,367	1,497	(53)	539
NET LOSS	\$(3,964)	\$(7,530)	\$(7,861)	\$(4,626)	\$(5,891)
NET LOSS PER SHARE:					
Basic and diluted	\$(0.21)	\$(0.41)	\$(0.45)	\$(0.28)	\$(0.39)
Weighted average shares outstanding:					
Basic and diluted	18,933	18,542	17,608	16,737	14,957
Balance Sheet Data:					
Total assets	\$185,787	\$211,336	\$191,290	\$140,746	\$132,036
Short-term debt	9,460	7,300	3,153	6,850	8,231
Long-term debt	37,866	52,399	32,238	4,062	2,876
Shareholders' equity	41,297	40,283	43,758	40,105	40,925

The selected financial statements presented above are not comparable due to the acquisitions that occurred in the years ended December 31, 2016, 2015 and 2014.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We believe the following discussion and analysis provides information that is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion and analysis should be read in conjunction with the consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-K. This Management's Discussion and Analysis will help you understand:

- The impact of forward-looking statements;
- Key transactions and events during 2016 and 2015;
- Our financial structure, including our historical financial presentation;
- Our results of operations for the previous three years, as well as certain projections for the future;
- Certain aspects of our relationships with our subsidiaries;
- Our liquidity and capital resources;
- The impact of recently issued accounting standards on our financial statements; and
- Our critical accounting policies and estimates.

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-K. 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, 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;
- 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 attract and 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. There may be additional risks we do not currently view as material or that are not presently known. In evaluating these statements, you should consider various factors, including the risks set forth in the section entitled “Risk Factors.”

Key Transactions and Events

We were impacted by the following key transactions and events in 2015 and 2016 that affect comparability of our results to 2017 and other periods:

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 consolidated financial statements since the acquisition date.

Year ended December 31, 2015:

Acquired the outstanding capital stock of Moda Superbe Limited (“Moda”) on June 11, 2015. The results of operations of Moda have been included in our consolidated financial statements since the acquisition date.

Completed an asset purchase agreement with CrossView, Inc. (“CrossView”) and its shareholders on August 5, 2015. The results of operations of CrossView have been included in our consolidated financial statements since the acquisition date.

Overview

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 support clients in a wide array of industries, including fashion apparel and accessories, fragrance and beauty products, CPG, home furnishings and

housewares, coins and collectibles, and technology products.

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.

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

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 PFSweb 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.

2018 Update – Subsequent to December 31, 2017, the Company continued with its reorganization efforts to migrate from its current operating segments into two new operating segments, Professional Services and PFS Operations. As a result, we expect to report a change in our operating segments during 2018.

Results of Operations

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).

	2017	2016	Change		% of Net Revenues		2016	2015	Change		% of Net Revenues	2015
			\$	%	2017	%			\$	%	2015	
Revenues												
Service fee revenue	\$233.6	\$226.2	\$7.4	3.3 %	71.5 %	67.6 %	\$182.2	\$44.0	24.1 %	63.2 %		
Product revenue, net	40.7	48.7	(8.0)	(16.5)%	12.4 %	14.6 %	58.7	(10.0)	(17.0)%	20.4 %		
Pass-through revenue	52.6	59.8	(7.2)	(12.0)%	16.1 %	17.8 %	47.4	12.4	26.0 %	16.4 %		
Total revenues	326.9	334.7	(7.8)	(2.3)%	100.0%	100.0%	288.3	46.4	16.1 %	100.0%		
Cost of Revenues												
Cost of service fee revenue	155.2	155.5	(0.3)	(0.2)%	66.4 % ⁽¹⁾	68.8 % ⁽¹⁾	123.6	31.9	25.8 %	67.8 % ⁽¹⁾		
Cost of product revenue	38.5	45.9	(7.4)	(16.1)%	94.7 % ⁽²⁾	94.2 % ⁽²⁾	55.6	(9.7)	(17.5)%	94.8 % ⁽²⁾		
Pass-through cost of revenue	52.6	59.8	(7.2)	(12.0)%	100.0% ⁽³⁾	100.0% ⁽³⁾	47.4	12.4	26.0 %	100.0% ⁽³⁾		
Total cost of revenues	246.3	261.2	(14.9)	(5.7)%	75.3 %	78.0 %	226.6	34.6	15.3 %	78.6 %		
Service fee gross profit	78.4	70.7	7.7	11.0 %	33.6 % ⁽¹⁾	31.2 % ⁽¹⁾	58.6	12.1	20.6 %	32.2 % ⁽¹⁾		
Product revenue gross profit	2.2	2.8	(0.6)	(23.2)%	5.3 % ⁽²⁾	5.8 % ⁽²⁾	3.1	(0.3)	(8.5)%	5.2 % ⁽²⁾		
Pass-through gross profit	—	—	—	—	— ⁽³⁾	— ⁽³⁾	—	—	—	— ⁽³⁾		
Total gross profit	80.6	73.5	7.1	9.7 %	24.7 %	22.0 %	61.7	11.8	19.1 %	21.4 %		
	80.0	76.3	3.7	4.8 %	24.5 %	22.8 %	66.3	10.0	(15.1)%	23.0 %		

Selling General and Administrative expenses												
Income (loss) from operations	0.6	(2.8)	3.4	(121.1)%	0.2 %	(0.8)%	(4.6)	1.8	38.4 %	(1.6)%		
Interest expense, net	2.7	2.3	0.4	17.9 %	0.8 %	0.7 %	1.8	0.5	(32.2)%	0.6 %		
Loss from operations before income taxes	(2.1)	(5.1)	3.0	(58.6)%	(0.7)%	(1.5)%	(6.4)	1.3	18.9 %	(2.2)%		
Income tax expense, net	1.8	2.4	(0.6)	(22.9)%	0.6 %	0.7 %	1.5	0.9	(58.1)%	0.5 %		
	\$(3.9)	\$(7.5)	\$3.6	(47.4)%	(1.2)%	(2.3)%	\$(7.9)	\$0.4	4.2 %	(2.7)%		

(1) Represents the percent of Service fee revenue.

(2) Represents the percent of Product revenue, net.

(3) Represents the percent of Pass-through revenue.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Service fee revenue. Service fee revenue increased \$7.4 million, or 3.3%, in 2017 as compared to 2016. The increase in service fee revenue in 2017 as compared to 2016 was primarily due to the impact of expanded and new client relationships, partially offset by the conclusion or reduction of operations of certain client programs during 2017.

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

Period ended December 31, 2016	\$226.2
New service contract relationships	16.0
Change in existing client relationships and terminated client relationships not included in 2017 revenue	(8.6)
Period ended December 31, 2017	\$233.6

When considering client relationships, we define an existing client to be a client from whom we earned revenue in both the current and prior year; we define a new client to be a client from whom we only earned revenue in the current year; and we define a terminated client as a client from whom we only earned revenue in the prior year.

Product revenue, net. Product revenue decreased \$8.0 million, or 16.5%, in 2017 as compared to 2016. This reduction in revenue was 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.

Cost of Service Fee Revenue. Service fee gross profit as a percentage of service fees increased to 33.6% in 2017 from 31.2% in 2016. In 2016, we incurred incremental facility, labor and other costs to support the setup and launch of new client relationships, in particular, for certain of these new clients whose unique business models led to unanticipated operational requirements requiring remediation to the solutions while also supporting the clients' seasonal peak. During 2017, we terminated our relationships with certain lower margin clients and were able to increase profit on other clients acquired in 2016.

Cost of Product Revenue. Cost of product revenue decreased by \$7.4 million, or 16.1%, to \$38.5 million in 2017 as compared to 2016. The decrease is directly attributable to the decrease in product revenue. The resulting gross profit margin was \$2.2 million, or 5.3% of product revenue, for the year ended December 31, 2017 and \$2.8 million, or 5.8% of product revenue, for 2016.

Selling, General and Administrative ("SG&A") Expenses. SG&A expenses were \$80.0 million, or 24.5% of total revenues in 2017 and \$76.3 million, or 22.8% of total revenues in 2016. The increase in the SG&A expense and percentage is primarily due to an increase in payroll-related expenses, including increases in incentive-based cash and stock compensation, and an increase in acquisition-related, restructuring and other costs.

Income Taxes. During 2017, we recorded a tax provision comprised primarily of \$1.1 million related to the majority of our international operations, \$0.6 million related to state income taxes, and \$0.1 million associated with the tax amortization of goodwill relation to our CrossView acquisition. A valuation allowance has been provided for the majority of our domestic net deferred tax assets, which are primarily related to our net operating loss carryforwards, and for certain foreign deferred tax assets.

On December 22, 2017, the US Government enacted the U.S. Tax Cuts and Jobs Act (the "Tax Reform Act"). The Tax Reform Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2017, we have not completed our accounting for the tax effects of enactment of the Tax Reform Act; however, in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No.118, Income Tax Account Implications of the Tax Cuts and Job Act (SAB118), we have made reasonable estimates when possible.

We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Reform Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount related to the remeasurement of our deferred tax balance was \$12.1 million that was mostly offset by a change in the valuation allowance except for a \$0.6 million benefit that was recorded to our income statement related to tax amortization of goodwill. The one-time transition tax is based on our total post-1986 earnings and profits (E&P) that we previously deferred from US income taxes. We have not yet completed our calculation of the total post-1986 E&P for these foreign subsidiaries. However, based on our estimate we believe there is a net deficit E&P and, therefore, have not recorded any liabilities related to this tax.

The preliminary net tax effects recorded may differ in the future due to changes in the interpretations of the Tax Reform Act, legislative action, and changes to estimates we have utilized to calculate the tax impact. We expect to finalize the tax analysis related to the Tax Reform Act with the filing of our tax return and record any differences

between the final and provisional amounts in the 2018 fourth quarter at that time, if any.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Service fee revenue. Service fee revenue increased \$44.0 million, or 24.1%, in 2016 as compared to 2015. The increase in service fee revenue in 2016 as compared to 2015 was primarily due to the impact of expanded and new client relationships, including service fee revenues generated by our acquired subsidiaries Moda beginning in June 2015, CrossView beginning in August 2015 and Conexus beginning in June 2016, partially offset by the conclusion or reduction of operations of certain client programs during 2016.

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

Period ended December 31, 2015	\$182.2
New service contract relationships	27.0
Change in existing client service fee relationships	23.6
Terminated client relationships not included in 2016 revenue	(6.6)
Period ended December 31, 2016	\$226.2

When considering client relationships, we define an existing client to be a client from whom we earned revenue in both the current and prior year; we define a new client to be a client from whom we only earned revenue in the current year; and we define a terminated client as a client from whom we only earned revenue in the prior year. The growth of existing client relationships in 2016 includes the benefit of a full period of client activity applicable to client relationships acquired in conjunction with the Moda acquisition in June 2015 and CrossView acquisition in August 2015, compared to only a partial period of revenue in 2015. The new service contract relationships include an aggregate of approximately \$3.3 million of revenue applicable to Conexus, acquired in June 2016.

Product revenue, net. Product revenue decreased \$10.0 million, or 17.0%, in 2016 as compared to 2015. This reduction in revenue was 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.

Cost of Service Fee Revenue. Service fee gross profit as a percentage of service fees decreased to 31.2% in 2016 from 32.2% in 2015. During 2016 we implemented three new, large fulfillment solutions in the U.S. along with several other engagements. The decline in gross margin is primarily due to incremental facility, labor and other costs incurred to support the setup and launch of new client relationships, especially for certain of these new clients whose unique business models led to unanticipated operational requirements requiring remediation to the solutions while also supporting the clients' seasonal peak. The impact of these higher labor and operating costs was partially offset by the benefit of higher margin project activity and higher margin professional services activity, including our agency and technology services, which have been further bolstered by our acquisitions of Moda and Crossview in mid-2015 and Conexus in June 2016.

Cost of Product Revenue. Cost of product revenue decreased by \$9.7 million, or 17.5%, to \$45.9 million in 2016 as compared to 2015. The resulting gross profit margin was \$2.8 million or 5.8% of product revenue for the year ended December 31, 2016 and \$3.1 million or 5.2% of product revenue for 2015.

Selling, General and Administrative ("SG&A") Expenses. SG&A expenses were \$76.3 million, or 22.8% of total revenues in 2016 and \$66.3 million, or 23.0% of total revenues in 2015. The year ended December 31, 2016 includes \$13.1 million of SG&A expenses for our newly consolidated acquisitions, Moda, CrossView and Conexus (including \$3.5 million of amortization of acquisition related intangible assets), which were either not yet acquired as of December 31, 2015 or not included for the full year 2015. The year ended December 31, 2015 included \$5.2 million of SG&A expenses for Moda and CrossView (including \$1.9 million of amortization of acquisition related intangible assets) and \$0.4 million of expense related to the settlement of a claim relating to a discontinued business in 2015. SG&A expenses for 2016 and 2015 include approximately \$3.5 million and \$5.8 million, respectively of restructuring and acquisition related charges and approximately \$4.0 million and \$2.9 million, respectively of amortization of identifiable intangible assets related to our acquisitions. Excluding the restructuring and acquisition related charges and amortization of acquired identifiable intangibles assets in 2016 and 2015 and the claim settlement in 2015, SG&A expenses were 21.0% and 20.0% of total revenues in 2016 and 2015, respectively. The remaining increase in the SG&A percentage is primarily due to increases in personnel to support our professional services business activity related expenses, as well as sales and marketing activities and facility costs to support our growth, partially offset by a reduction in incentive based cash and stock compensation.

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 relation to our CrossView acquisition.

Supplies Distributors and its Subsidiaries

We conduct a portion of our Retail business model operations through Supplies Distributors, which act as a distributor/reseller of various Ricoh and other products. We conduct these services through transaction management services agreements under which PFS provides transaction management and fulfillment services to Supplies Distributors. In addition, we have also provided Supplies Distributors with a subordinated loan that, as of December 31, 2017, had an outstanding balance of \$2.5 million.

Supplies Distributors paid us dividends of \$1.7 million, \$1.1 million and \$0.9 million in 2017, 2016 and 2015, respectively, which eliminate in consolidation. Supplies Distributors has received lender approval to pay dividends of approximately \$1.7 million in 2018, provided that no distribution may be made if, after giving effect thereto, Supplies Distributors or its subsidiaries would be in noncompliance with its financial covenants under its current facilities.

Liquidity and Capital Resources

We currently believe our cash position, financing available under our credit facilities and funds generated from operations will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries, if necessary, for at least the next twelve months.

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.

Our cash position decreased in 2017 primarily from using cash generated from operations to make capital expenditures, payments for acquisition-related contingencies, and to service debt obligations.

Cash Flows from Operating Activities

During 2017, cash income from operations before working capital changes was \$14.7 million, compared to \$11.2 million in 2016 and \$12.0 in 2015. In addition, we received cash flow benefits due to decreases in accounts receivable, prepaid expenses, other receivables and other assets, as well as inventories, the latter decrease caused by the reduction of our Ricoh related product revenue business. The above cash proceeds were partially offset by increases in accounts payable, deferred revenue, accrued expenses and other liabilities.

Cash Flows from Investing Activities

Cash used in investing activities included capital expenditures of \$4.7 million, \$8.7 million and \$4.5 million in the years ended December 31, 2017, 2016 and 2015, respectively, exclusive of property and equipment acquired under debt and capital lease financing, which consisted primarily of capitalized software costs and equipment purchases.

Capital expenditures have historically consisted of additions to upgrade our management information systems, development of customized technology solutions to support and integrate with our service fee clients and general expansion and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures to support new contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in upgrades and additions to facilities and information technology solutions and services for the upcoming twelve months, including costs to implement new clients, will be approximately \$7.0 million to \$10.0 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements, debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event that we do not obtain the financing results necessary to support such investments.

In 2016 and 2015, cash flows from investing activities included initial cash payments for acquisitions, net of cash acquired, of \$8.4 million in 2016 for Conexus, and \$31.6 million in 2015 for Moda and CrossView.

Cash Flows from Financing Activities

During 2017, cash used in financing activities was \$14.7 million, primarily related to repayments on our debt and capital lease obligations and performance-based contingent payments, partially offset by borrowings under our revolving loan. In each of the years 2016 and 2015, cash flows from financing activities of \$7.0 million and \$18.6 million, respectively, were primarily due to proceeds from issuance of debt, net of debt and capital lease payments and performance-based contingent payments related to our recent acquisitions.

Payments made in relation to performance-based contingent payments were \$2.0 million paid in 2017 for CrossView 2016 performance-based contingent payments, \$9.5 million paid in 2016 for REV Solutions, Inc. and REVTECH Solutions India Private Limited (collectively "REV"), LiveAreaLabs, Inc. ("LAL") and CrossView 2015 performance-based contingent payments and \$2.0 million paid in 2015 for REV and LAL 2014 performance-based

contingent payments.

Working Capital

During 2017, our working capital decreased to \$13.7 million from \$18.6 million at December 31, 2016, primarily driven by (i) \$11.5 million net reduction of long-term debt, (ii) \$3.0 million reduction of capital lease obligations, and (iii) \$4.7 million used to purchase property and equipment, offset by income from operations before working capital changes.

Inventory Financing

To finance its distribution of Ricoh products in the U.S., Supplies Distributors has a short-term credit facility with IBM Credit LLC (“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.

In January 2018, Supplies Distributors entered into Amendment No. 19 to the IBM Credit Facility. The Amended IBM Credit Facility adjusts the minimum borrowing under the facility from \$13.0 million to \$11.0 million and lowers the minimum PFS Subordinated Note receivable PFSweb is required to maintain from \$2.5 million to \$1.0 million.

Debt and Capital Lease Obligations

U.S. Credit Agreement. In August 2015, we entered into a new 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 \$19.3 million as of December 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. In June 2016, PFSweb also entered into a Master Agreement with Regions Bank to provide equipment loans financing for certain capital expenditures.

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.

Other than performance-based contingent payments applicable to our CrossView acquisition, 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.

Debt Covenants / Restricted Net Assets

Certain of our credit facilities contain various financial and non-financial covenants, including covenants that restrict our ability to incur additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, and

place restrictions on the transfer of assets or the payment of dividends between us and our subsidiaries. At December 31, 2017 and 2016, we had restricted net assets of approximately \$63.3 million and \$71.6 million, respectively.

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 December 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.

Contractual Obligations

The following is a schedule of our total contractual cash obligations, which is comprised of debt, performance-based contingent payments, operating leases and capital leases (including interest), as of December 31, 2017 (in millions):

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	Payments Due By Period				
	Total	Less than	1 - 3	3 - 5	More than
		1 Year	Years	Years	5 Years
Contractual Obligations					
Debt	\$44,423	\$4,075	\$39,117	\$1,231	\$—
Capital lease obligations	3,032	2,256	776	—	—
Performance-based					
contingent payments	3,967	3,967	—	—	—
Operating leases	58,760	10,217	18,898	15,757	13,888
Total	\$110,182	\$20,515	\$58,791	\$16,988	\$13,888

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Impact of Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, As Amended (“ASU 2014-09”), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, provides companies with a single revenue recognition model for recognizing revenue from contracts with customers and significantly expands the disclosure requirements for revenue arrangements. The new standard, as amended, will be effective for the Company for interim and annual reporting periods beginning on January 1, 2018. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application with disclosure of results under the new and old standards for the first year of adoption.

The Company will adopt the standard as of January 1, 2018, using the modified retrospective transition method. Under the modified retrospective transition method, the Company will calculate and record the cumulative effect of adopting the new standard at January 1, 2018 for all open contracts, in the Company’s Quarterly Report on Form 10-Q for the first quarter of 2018.

Based on 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. Currently the Company expenses certain contract acquisition costs as incurred. Under the new standard the Company will defer incremental commission costs to obtain a contract and amortize those costs over the period of benefit. ASU 2014-09 allows, as a policy election, sales commissions related to contracts less than one year to be expensed as incurred instead of capitalized, as a practical expedient. The Company has elected this practical expedient. Therefore, only commissions related to contracts greater than one year will be capitalized.

Additionally, the Company has reviewed the way it manages volume tiered discounts and penalties. Currently, revenue adjustments are recorded as discounts or penalties when incurred. Under ASU 2014-09, these items will be treated as variable consideration and good faith estimates will be made up front, which will have the impact of

reducing some of the revenue. Variable consideration will be reassessed quarterly.

Contract modifications under prior guidance were handled as modifications, if the adjustment was for additional hours on time and materials contracts, which were adjusted and charged as work is performed monthly. Under ASU 2014-09, we will continue to account for large scope changes with significant additional distinct services with related price increases that reflect our stand-alone selling price of the scope change as separate contracts. ASU 2014-09 allows, as a transition practical expedient, for contracts modified prior to the beginning of the earliest reporting period presented under the new standard (January 1, 2018 for the Company), an entity can reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented under the new standard when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition. We are electing this practical expedient.

Based on contracts in process at December 31, 2017, the Company expects to record, upon adoption of ASU 2014-09, a net cumulative adjustment to shareholders' equity not to exceed \$1.0 million. The adjustment to retained earnings primarily relates to the modification of the amortization of implementation related deferred revenues and costs. Sales commissions were not a material amount for open contracts at December 31, 2017 and, therefore, will not have an impact at adoption.

The Company will make certain presentation changes on its consolidated balance sheet to comply with the new standard.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (“ASU 2016-02”). ASU 2016-02 establishes a right-of-use (“ROU”) model that requires a lessee to record a 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. ASU 2016-02 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. We are currently assessing the ASU’s impact on our consolidated financial statements, but do 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 No. 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”). ASU 2016-15 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. ASU 2016-15 is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses, ASU 2017-01 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017, and interim periods within those annual periods. ASU 2017-01 is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill impairment” (“ASU 2017-04”), which removes Step 2 of the goodwill impairment test. A goodwill impairment will now be determined by the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the effect of ASU 2017-04.

On May 10, 2017, the FASB issued ASU No. 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting,” (“ASU 2017-09”) clarifying when a change to the terms or conditions of a stock-based payment award must be accounted for as a modification. ASU 2017-09 requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is effective for the Company on a prospective basis beginning on January 1, 2018. ASU 2017-09 is not expected to have an impact on the Company’s consolidated financial statements as it is not the Company’s practice to change either the terms or conditions of stock-based payment awards once they are granted.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. If there is a significant unfavorable change to current conditions, it could result in a material adverse impact to our business, operating results and financial condition. We evaluate our estimates and assumptions on an ongoing basis. We base our estimates on experience and on various other assumptions that we believe to be reasonable under the circumstances. All of our significant accounting policies are disclosed in the notes to our consolidated financial statements.

We have defined a critical accounting estimate as one that is both important to the portrayal of our financial condition and results of operations and requires us to make difficult, subjective or complex judgments or estimates about matters that are uncertain. During the past two years, we have not made any material changes in accounting methodology used to establish the critical accounting estimates discussed below. The following represent certain critical accounting policies that require us to exercise our business judgment or make significant estimates. In addition, there are other items within our consolidated financial statements that require estimation but are not deemed critical as defined above.

Revenue Recognition

We derive revenue primarily from services provided under contractual arrangements with our clients or from the sale of products under our distributor agreements. We recognize revenue when persuasive evidence of 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 services, we record revenue on a gross basis when we are a principal to the transaction and net of costs when we are acting as an agent between the customer or client and the vendor. We consider several factors to determine whether we are a principal or an agent, most notably whether we are the primary obligor to the vendor or customer, have established our own pricing and have inventory and credit risks, if applicable.

Our service fee revenue relates to our distribution services, order management/customer care services, professional, digital agency and technology services. Distribution services relate primarily to inventory management, product receiving, warehousing and fulfillment (i.e., picking, packing and shipping product on our clients' behalf). Order management/customer care services relate primarily to taking customer orders for our clients' products via various channels such as telephone call-center, electronic or facsimile. These services also entail addressing customer questions related to orders, as well as cross-selling/up-selling activities. Professional and technology services relate primarily to design, implementation and support of eCommerce platforms, website solutions and quality control for our clients.

We typically charge our service fee revenue on either 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 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. For technology and digital agency services, we may charge on a fixed cost basis based on an estimated maximum number of professional service labor hours.

We evaluate our 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 605, "Revenue Recognition." A deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no return rights or other contingencies present for the delivered elements. We allocate revenue to each element based on estimated selling price. Each of our 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 we are not able to establish vendor specific objective evidence of fair value for our services, nor is third-party evidence available to establish stand-alone selling prices. Accordingly we use our best estimate of selling price for the deliverables. We establish our estimates considering internal factors such as margin objectives, pricing practices and controls as well as market conditions such as competitor pricing strategies.

We perform front-end set-up and integration services to support client eCommerce platforms and websites. When we determine these front-end set-up and integration services do not meet the criteria for recognition as a separate unit of accounting, we defer the start-up fees received and the related costs, and recognize them over the expected performance period. When we determine 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, we recognize revenue as services are rendered and costs as they are incurred. For fixed-price arrangements, we use 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, we recognize revenue over the expected performance period on a proportional performance basis, as determined by the relationship of actual effort incurred compared to the estimated total contract effort. We use this method because we consider effort incurred to date to be the best available measure of progress on contract in progress. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined. Change orders that result from modification of an original contract are taken into consideration for revenue recognition when they result in a change of total contract value and are approved

by our clients.

Depending on the terms of the customer arrangement, product revenue is recognized either upon shipment of the product or when the customer receives the product. Product revenue is reported net of estimated returns and allowances, which are estimated based upon historical return information. Management also considers any other current information and trends in making estimates. If actual sales returns, allowances and discounts are greater than estimated by management, additional expense may be incurred.

Cost of Service Fee Revenue

Our cost of service fee revenue represents the cost to provide the services described above, primarily compensation and related expenses and other fixed and variable expenses directly related to providing the services. These also include certain occupancy and information technology costs and depreciation and amortization expenses. Certain of these costs are allocated from general and administrative expenses. For these allocations, we estimate the amount of direct expenses based on client-specific information, such as the number of transactions processed. We believe our allocation methodology is reasonable, however a change in assumptions would result in a different gross profit in our statement of operations, yet no change to the resulting net income or loss.

Allowance for Doubtful Accounts

The determination of the collectability of amounts due from our clients and customers requires us to use estimates and make judgments regarding future events and trends, including monitoring our customers' payment history and current credit worthiness to determine that collectability is reasonably assured, as well as consideration of the overall business climate in which our clients and customers operate. Inherently, these uncertainties require us to make frequent judgments and estimates regarding our clients and customers' ability to pay amounts due us to determine the appropriate amount of valuation allowances required for doubtful accounts. Provisions for doubtful accounts are recorded when it becomes evident the client or customer will not make the required payments at either contractual due dates or in the future. These provisions may be based on discussions with the client or customer or the age of the amount due.

In our Retail model, we also maintain an allowance for uncollectible vendor receivables, which arise from inventory returns to vendors, vendor rebates, price protections and other promotions. We determine the sufficiency of the vendor receivable allowance based upon various factors, including payment history and vendor communication. Amounts received from vendors may vary from amounts recorded because of potential non-compliance with certain elements of vendor programs. If our estimated allowances for uncollectible accounts or vendor receivables subsequently prove insufficient, an additional allowance may be required.

We believe our allowances for doubtful accounts are adequate to cover anticipated losses under current conditions; however, uncertainties regarding changes in the financial condition of our clients and customers, either adverse or positive, could impact the amount and timing of any additional provisions for doubtful accounts that may be required.

Inventory Reserves

Inventories (merchandise, held for resale, all of which are finished goods) are stated at the lower of weighted average cost and net realizable value. Supplies Distributors and its subsidiaries assume responsibility for slow-moving inventory under certain distributor agreements, subject to certain termination rights, but have the right to return product rendered obsolete by engineering changes, as defined. We review inventories for impairment on a periodic basis, but at a minimum, annually. Recoverability of the inventory on hand is measured by comparisons of the carrying value to the fair value of the inventory. This requires us to record provisions and maintain reserves for excess or obsolete inventory. If write-downs of inventories are necessary, the cost basis of that inventory is adjusted. To determine these reserve amounts, we regularly review inventory quantities on hand and compare them to estimates of future product demand and market conditions. These estimates and forecasts inherently include uncertainties and require us to make judgments regarding potential outcomes. We believe our reserves are adequate to cover anticipated losses under current conditions; however, significant or unanticipated changes to our estimates and forecasts, either adverse or positive, could impact the amount and timing of any additional provisions for excess or obsolete inventory that may be required.

Stock Compensation

We utilize our Employee Stock and Incentive Plan (the "Employee Plan") to help attract, retain and incentivize qualified executives, key employees and non-employee directors to increase our shareholder value and help build and sustain growth. The Employee Plan provides for the granting of incentive awards in a variety of forms, such as the award of an option, stock appreciation right, restricted stock award, restricted stock unit, deferred stock unit, among other stock-based awards.

Compensation cost is measured based on the grant date fair value of the award. Depending on the conditions associated with the vesting of the award, compensation cost is recognized on a straight-line or graded basis, net of

estimated forfeitures, over the requisite service period of each award.

We estimate the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. For certain of the awards that have a market condition, we estimate the compensation cost using a Monte-Carlo simulation. The estimated fair value for awards involves assumptions for expected dividend yield, stock price volatility, risk-free interest rates and the expected life of the award.

If, in the future, we determine that another method of estimating an award's fair value is more reasonable, or, if another method for calculating these input assumptions is prescribed by authoritative guidance, and, therefore, should be used to estimate expected volatility or expected term, the fair value calculated for our stock-based compensation could change significantly.

Income Taxes

The liability method is used for determining our income taxes, under which current and deferred tax liabilities and assets are recorded in accordance with enacted tax laws and rates. Under this method, the amounts of deferred tax liabilities and assets at the end of each period are determined using the tax rate expected to be in effect when taxes are actually paid or recovered. Valuation allowances are established to reduce deferred tax assets to their net realizable value when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining the need for valuation allowances, we have considered and made judgments and estimates regarding estimated future taxable income. These estimates and judgments include some degree of uncertainty and changes in these estimates and assumptions could require us to adjust the valuation allowances for our deferred tax assets. The ultimate realization of our deferred tax assets depends on the generation of sufficient taxable income in the applicable taxing jurisdictions. Although we believe our estimates and judgments are reasonable, actual results may differ, which could be material.

Because we operate in multiple countries, we are subject to the jurisdiction of multiple domestic and foreign tax authorities. Determination of taxable income in any jurisdiction requires the interpretation of the related tax laws and regulations and the use of estimates and assumptions regarding significant future events such as the amount, timing and character of deductions, permissible revenue recognition methods under the tax law and the sources and character of income and tax credits. Changes in tax laws, regulations, foreign currency exchange restrictions or our level of operations or profitability in each taxing jurisdiction could have an impact on the amount of income taxes that we provide during any given year.

Business Combinations

We account for business combinations under the acquisition method of accounting, which requires the assets and liabilities to be recorded at their respective fair values as of the acquisition date in the consolidated financial statements. The determination of estimated fair value may require us to make significant estimates and assumptions, including estimates of future financial performance the acquired entity. The purchase price is the fair value of the total consideration conveyed to the seller and the excess of the purchase price over the fair value of the acquired identifiable net assets, where applicable, is recorded as goodwill. The results of operations of an acquired business are included in our consolidated financial statements from the date of acquisition. Costs associated with the acquisition of a business are expensed in the period incurred.

Long-Lived Assets, Goodwill and Intangible Assets

Long-lived assets include property, intangible assets, goodwill and certain other assets. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, we review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We review goodwill for impairment at least annually as of year-end. We record impairment losses in the period in which we determine the carrying amount is not recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. This may require us to make judgments regarding long-term forecasts of our future revenues and costs related to the assets subject to review.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to various market risks including interest rates on our financial instruments and foreign exchange rates.

Interest Rate Risk

Our interest rate risk relates to the outstanding balances on our inventory and working capital financing agreements and credit agreement which amounted to \$51.3 million at December 31, 2017. A 100 basis point movement in interest rates would result in approximately \$0.5 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at December 31, 2017.

Foreign Exchange Risk

Currently, our foreign currency exchange rate risk is primarily limited to the Canadian Dollar, the Euro, the British Pound and the Indian Rupee. In the future, our foreign currency exchange risk may also include other currencies applicable to certain of our international operations. We may, from time to time, employ derivative financial instruments to manage our exposure to fluctuations in foreign currency rates. To hedge our net investment and intercompany payable or receivable balances in foreign operations, we may enter into forward currency exchange contracts. No derivative instruments or forward currency exchange contracts were entered into during 2017, 2016 or 2015.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors

PFSweb, Inc.

505 Millennium Dr.

Allen, TX 75013

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of PFSweb, Inc. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedules listed in Item 15(a)(1) of this annual report on Form 10-K (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that

our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.

Dallas, Texas

March 16, 2018

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31

(In thousands, except share data)

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,078	\$ 24,425
Restricted cash	214	215
Accounts receivable, net of allowance for doubtful accounts of \$373 and \$494 at December 31, 2017 and December 31, 2016, respectively	72,062	80,223
Inventories, net of reserves of \$342 and \$568 at December 31, 2017 and December 31, 2016, respectively	5,326	6,632
Other receivables	5,366	6,750
Prepaid expenses and other current assets	6,633	7,299
Total current assets	108,679	125,544
PROPERTY AND EQUIPMENT, net	24,178	30,264
IDENTIFIABLE INTANGIBLES, net	3,371	6,864
GOODWILL	45,698	46,210
OTHER ASSETS	3,861	2,454
Total assets	\$ 185,787	\$ 211,336
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 45,070	\$ 59,752
Accrued expenses	29,074	30,360
Current portion of long-term debt and capital lease obligations	9,460	7,300
Deferred revenue	7,405	7,156
Performance-based contingent payments	3,967	2,405
Total current liabilities	94,976	106,973
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	37,866	52,399
DEFERRED REVENUE, less current portion	4,034	4,127
DEFERRED RENT	5,464	4,810
PERFORMANCE-BASED CONTINGENT PAYMENTS, less current portion	—	1,678
OTHER LIABILITIES	2,150	1,066
Total liabilities	144,490	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; 19,058,685 and	19	19

18,768,567 shares issued at December 31, 2017 and December 31, 2016,

respectively; and 19,025,218 and 18,735,100 outstanding at December 31, 2017

and December 31, 2016, respectively

Additional paid-in capital	150,614	146,286
Accumulated deficit	(109,281)	(105,317)
Accumulated other comprehensive income (loss)	70	(580)
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	41,297	40,283
Total liabilities and shareholders' equity	\$185,787	\$211,336

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

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31

(In thousands, except per share data)

	2017	2016	2015
REVENUES:			
Service fee revenue	\$233,580	\$226,165	\$182,175
Product revenue, net	40,663	48,695	58,659
Pass-through revenue	52,582	59,783	47,435
Total revenues	326,825	334,643	288,269
COSTS OF REVENUES:			
Cost of service fee revenue	155,160	155,513	123,574
Cost of product revenue	38,504	45,883	55,587
Cost of pass-through revenue	52,582	59,783	47,435
Total costs of revenues	246,246	261,179	226,596
Gross profit	80,579	73,464	61,673
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES			
Income (loss) from operations	598	(2,840)	(4,607)
INTEREST EXPENSE, net			
Loss from operations before income taxes	(2,140)	(5,163)	(6,364)
INCOME TAX EXPENSE			
NET LOSS	\$(3,964)	\$(7,530)	\$(7,861)
NET LOSS PER SHARE:			
Basic and diluted	\$(0.21)	\$(0.41)	\$(0.45)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic and diluted	18,933	18,542	17,608
COMPREHENSIVE LOSS:			
Net loss	\$(3,964)	\$(7,530)	\$(7,861)
Foreign currency translation adjustment, net of taxes	650	(284)	(978)
TOTAL COMPREHENSIVE LOSS	\$(3,314)	\$(7,814)	\$(8,839)

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

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Treasury Stock Amount	Total Shareholders' Equity
Balance, December 31, 2014	17,047,093	\$ 17	\$ 129,457	\$(89,926)	\$ 682	33,467	\$(125)	\$ 40,105
Net loss	—	—	—	(7,861)	—	—	—	(7,861)
Stock-based compensation expense	—	—	4,637	—	—	—	—	4,637
Exercise of stock options	382,893	—	1,483	—	—	—	—	1,483
Issuance of restricted stock	109,486	—	—	—	—	—	—	—
Tax withholding on restricted stock	—	—	(646)	—	—	—	—	(646)
Shares issued related to acquisitions	596,746	1	6,842	—	—	—	—	6,843
Non-cash compensation expense	—	—	175	—	—	—	—	175
Foreign currency translation adjustment, net of taxes	—	—	—	—	(978)	—	—	(978)
Balance, December 31, 2015	18,136,218	18	141,948	(97,787)	(296)	33,467	(125)	43,758
Net loss	—	—	—	(7,530)	—	—	—	(7,530)
Stock-based compensation expense	—	—	2,111	—	—	—	—	2,111
Exercise of stock options	250,256	1	1,203	—	—	—	—	1,204
Issuance of restricted stock	210,076	—	—	—	—	—	—	—
Tax withholding on restricted stock	—	—	(1,307)	—	—	—	—	(1,307)
Shares issued related to acquisitions	172,017	—	2,331	—	—	—	—	2,331
Foreign currency translation adjustment, net of taxes	—	—	—	—	(284)	—	—	(284)
Balance, December 31, 2016	18,768,567	19	146,286	(105,317)	(580)	33,467	(125)	40,283
Net loss	—	—	—	(3,964)	—	—	—	(3,964)

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Stock-based compensation expense	—	—	3,333	—	—	—	—	3,333
Exercise of stock options	168,823	—	770	—	—	—	—	770
Issuance of restricted stock	73,122	—	—	—	—	—	—	—
Tax withholding on restricted stock	—	—	(256)	—	—	—	—	(256)
Non-cash compensation expense	—	—	128	—	—	—	—	128
Shares issued related to acquisitions	48,173	—	353	—	—	—	—	353
Foreign currency translation adjustment, net of taxes	—	—	—	—	650	—	—	650
Balance, December 31, 2017	19,058,685	\$ 19	\$ 150,614	\$ (109,281)	\$ 70	33,467	\$ (125)	\$ 41,297

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

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

(In thousands)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(3,964)	\$(7,530)	\$(7,861)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	14,899	15,377	14,831
Amortization of debt issuance costs	149	146	52
Provision for doubtful accounts	(26)	4	187
Provision for excess and obsolete inventory	58	57	93
Loss on disposition of fixed assets	159	219	—
Deferred income taxes	(274)	823	58
Stock-based compensation expense	3,333	2,111	4,637
Non-cash compensation expense	128	—	175
Changes in operating assets and liabilities:			
Accounts receivable	10,595	(8,931)	(5,632)
Inventories	1,266	2,578	1,070
Prepaid expenses, other receivables and other assets	2,036	424	(824)
Deferred rent	(14)	887	(542)
Accounts payable, deferred revenue, accrued expenses and other liabilities	(17,294)	7,101	16,427
Net cash provided by operating activities	11,051	13,266	22,671
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(4,652)	(8,713)	(4,489)
Proceeds from sale of property and equipment	65	—	—
Acquisitions, net of cash acquired	—	(8,359)	(31,619)
Net cash used in investing activities	(4,587)	(17,072)	(36,108)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock	770	1,203	1,483
Taxes paid on behalf of employees for withheld shares	(256)	(1,307)	(646)
Decrease in restricted cash	2	60	383
Payments on performance-based contingent payments	(2,004)	(9,454)	(2,043)
Payments on capital lease obligations	(3,064)	(2,981)	(2,417)
Payments on term loan	(2,438)	(563)	—
Borrowings on term loan	—	20,000	10,000
Payments on revolving loan	(97,846)	(83,553)	(35,083)
Borrowings on revolving loan	89,989	84,280	54,366
Payments on other debt	(1,219)	(686)	(117,785)
Borrowings on other debt	1,353	—	111,022
Debt issuance costs	—	—	(723)
Net cash (used in) provided by financing activities	(14,713)	6,999	18,557

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EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	2,902	(549)	(1,467)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,347)	2,644	3,653
CASH AND CASH EQUIVALENTS, beginning of period	24,425	21,781	18,128
CASH AND CASH EQUIVALENTS, end of period	\$19,078	\$24,425	\$21,781
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for income taxes	2,131	1,669	1,367
Cash paid for interest	2,496	1,753	975
Non-cash investing and financing activities:			
Property and equipment acquired under long-term debt and capital leases	\$374	\$6,793	\$4,649
Performance-based contingent payments through stock issuance	\$353	\$2,238	\$6,600

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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Overview

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. Supplies Distributors sells its products in the United States, Canada and Europe. Pursuant to agreements between PFSweb and Supplies Distributors, PFSweb provides transaction management and fulfillment services to Supplies Distributors.

The majority of Supplies Distributors’ revenue is generated by its sale of product purchased from Ricoh. Under the distributor agreements, which are subject to periodic renewals, Ricoh sells product to Supplies Distributors and reimburses Supplies Distributors for 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 other certain expenses, as defined. Supplies Distributors can return to Ricoh product rendered obsolete by Ricoh engineering changes after customer demand ends. Ricoh determines when a product is obsolete. Ricoh and Supplies Distributors also have agreements under which Ricoh reimburses or collects from Supplies Distributors amounts calculated in certain inventory cost adjustments. Supplies Distributors passes through to customers marketing programs specified by Ricoh and administers such programs according to Ricoh guidelines.

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.

2. Significant Accounting Policies

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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

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 of a sales arrangement exists, product shipment or delivery has occurred or services have been 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 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.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 coop 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 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.

Deferred Revenues and Deferred Costs

The Company primarily performs its distribution services, order management, customer care and certain other 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.

Current and non-current deferred implementation costs, excluding technology and development costs, are a component of prepaid expenses and other current assets and other assets, respectively.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Concentration of Business and Credit Risk

During 2017 and 2016, no product customer or service fee client relationships represented more than 10% of the Company's consolidated total net revenues. During 2015, one service fee client relationship, the United States Mint, represented approximately 11%, or \$31.2 million, of the Company's consolidated total net revenues. As of December 31, 2017, no client exceeded 10% of the Company's total accounts receivable. As of December 31, 2016, one client exceeded 10% of the Company's consolidated accounts receivable.

Cash and Cash Equivalents

Cash equivalents are defined as short-term highly liquid investments with original maturities, when acquired, of three months or less. At times, the Company has cash balances in domestic bank accounts that exceed Federal Deposit Insurance Corporation insured limits. The Company has not experienced any losses related to these cash concentrations.

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.

Other Receivables

Other receivables primarily include amounts due from Ricoh for costs incurred by the Company under the distributor agreements and value added tax receivables.

Inventories

Inventories (all of which are finished goods) are stated at the lower of weighted average cost and net realizable value. The Company establishes inventory reserves based upon estimates of declines in values due to inventories that are slow moving or obsolete, excess levels of inventory or values assessed at lower than cost.

Supplies Distributors assumes responsibility for slow-moving inventory under its Ricoh distributor agreements, subject to certain termination rights, but has the right to return product rendered obsolete by engineering changes, as defined. In the event PFSweb, Supplies Distributors and Ricoh terminate the distributor agreements, the agreements provide for the parties to mutually agree on a plan of disposition of Supplies Distributors' then existing inventory.

Property and Equipment

The Company makes judgments and estimates in conjunction with the carrying value of property and equipment, including amounts to be capitalized, depreciation and amortization methods and useful lives. Property and equipment

are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets. Capitalized implementation costs are depreciated over the respective client expected performance period. Leasehold improvements are amortized over the shorter of the useful life of the related asset or the remaining lease term.

When events or changes in circumstances indicate that the carrying amount of our property and equipment might not be recoverable, the expected future undiscounted cash flows from the asset are estimated and compared with the carrying amount of the asset. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the asset with its carrying amount. Fair value is generally determined based on discounted cash flows or appraised values, as appropriate.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting, which requires the assets and liabilities to be recorded at their respective fair values as of the acquisition date in the consolidated financial statements. The determination of estimated fair value may require management to make significant estimates and assumptions. The purchase price is the fair value of the total consideration conveyed to the seller and the excess of the purchase price over the fair value of the acquired identifiable net assets, where applicable, is recorded as goodwill. The results of operations of an acquired business are included in the Company's consolidated financial statements from the date of acquisition. Costs associated with the acquisition of a business are expensed in the period incurred.

Definite-Lived Intangible Assets

The Company's definite-lived intangible assets are primarily comprised of non-compete agreements, trade names, customer relationships and developed technology.

Definite-lived intangible assets are amortized over their estimated useful life and only tested for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of the asset exceeds the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition. The impairment loss to be recorded would be the excess of the asset's carrying value over its fair value. Fair value is determined using a discounted cash flow analysis or other valuation technique.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill and other intangible assets with indefinite lives are not amortized to operations, but instead are reviewed for impairment at least annually in the fourth quarter, or more frequently when there is an indicator of impairment. Goodwill impairment exists when a reporting unit's goodwill carrying value exceeds its implied fair value. The Company has no intangible asset with indefinite useful lives, other than goodwill.

ASU Topic 350: Testing Goodwill for Impairment ("ASU Topic 350") permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying a two-step goodwill impairment test. This qualified assessment is referred to as "Step 0." When performing Step 0, an entity evaluates relevant events and circumstances, including but not limited to, macroeconomic conditions, industry and market conditions, overall financial performance, reporting unit specific events and entity specific events. If, after completing Step 0, an entity concludes that it is not likely that the fair value of the reporting unit is less than its carrying amount, it would not be required to perform a two-step impairment test for that reporting unit.

In the event that the conclusion of Step 0 requires the two-step test, the first step compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is

determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. An impairment loss is recognized to the extent that the carrying amount of goodwill exceeds its implied fair value.

If the Company is required to perform the two-step test described in the preceding paragraph, it would determine fair value using generally accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgment to estimate industry economic factors and the profitability of future business strategies.

The Company's valuation methodology for assessing impairment would require management to make judgments and assumptions based on historical experience and projections of future operating performance. If these assumptions differ materially from future results, the Company may record impairment charges in the future.

Foreign Currency Translation and Transactions

The functional currency of each of the Company's foreign subsidiaries is local currency. Assets and liabilities are translated at exchange rates in effect at the end of the period, and income and expense items are translated at the average exchange rates on a monthly basis. Translation adjustments are accumulated and reported as a component of accumulated other comprehensive income in the consolidated statements of shareholders' equity.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The Company includes currency gains and losses on short-term intercompany advances in the determination of net income and loss. The Company reports gains and losses on intercompany foreign currency transactions that are of a long-term investment nature as a component of accumulated other comprehensive income in the consolidated statements of shareholders' equity.

Stock-Based Compensation

The Company uses stock-based compensation, including stock options, deferred stock units and other stock-based awards to provide long-term performance incentives for its executives, key employees and non-employee directors. From the service inception date to the grant date, the Company recognizes compensation cost for all share-based payments based on the reporting date fair value of the award. After the grant date, compensation cost is measured based on the grant date fair value. Depending on the conditions associated with the vesting of the award, compensation cost is recognized on a straight-line or graded basis, net of estimated forfeitures, over the requisite service period of each award. The Company records compensation cost as a component of selling, general and administrative expenses in the consolidated statements of operations.

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model and estimates the compensation cost for certain of the awards that have a performance condition using a Monte-Carlo simulation. The estimated fair value for awards involves assumptions for expected dividend yield, stock price volatility, risk-free interest rates and the expected life of the award.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

The Company recognizes interest and penalties related to certain tax positions in income tax expense and monitors uncertain tax positions and recognizes tax benefits only when management believes the relevant tax positions would more likely than not be sustained upon examination.

Fair Value of Financial Instruments

In accordance with ASC 825, Financial Instruments, fair value is determined utilizing a hierarchy of valuation techniques. The three levels of the fair value hierarchy are as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The carrying value of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, debt and capital lease obligations, approximate their fair values at December 31, 2017 and 2016 based on short terms to maturity or current market prices and interest rates or observable inputs such as quoted prices in active markets.

Nonrecurring Fair Value Measurements

The purchase price of business acquisitions is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates, with any excess recorded as goodwill. The Company utilizes Level 3 inputs in the determination of the initial fair value of assets and liabilities.

Non-financial assets such as goodwill, intangible assets, software development costs and property and equipment are subsequently measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized.

Impact of Recently Issued Accounting Standards

Pronouncements Recently Adopted

In July 2015, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") No. 2015-11, "Simplifying the Measurement of Inventory" ("ASU 2015-11"), which modifies existing requirements regarding measuring inventory at the lower of cost and market. Under existing standards, the market amount requires consideration of replacement cost, net realizable value ("NRV"), and NRV less an approximately normal profit margin. ASU 2015-11 replaces market with NRV, defined as

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 ASU 2015-11 did not have a material impact on the Company's consolidated financial statements.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. Adoption of ASU 2015-17 did not have a material impact on the Company's consolidated financial statements.

Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, As Amended ("ASU 2014-09"), which will replace numerous requirements in U.S. GAAP, including industry-specific requirements, provides companies with a single revenue recognition model for recognizing revenue from contracts with customers and significantly expands the disclosure requirements for revenue arrangements. The new standard, as amended, will be effective for the Company for interim and annual reporting periods beginning on January 1, 2018. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application with disclosure of results under the new and old standards for the first year of adoption.

The Company will adopt the standard as of January 1, 2018, using the modified retrospective transition method. Under the modified retrospective transition method, the Company will calculate and record the cumulative effect of adopting the new standard at January 1, 2018 for all open contracts, in the Company's Quarterly Report on Form 10-Q for the first quarter of 2018.

Based on 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. Currently the Company expenses certain contract acquisition costs as incurred. Under the new standard the Company will defer incremental commission costs to obtain a contract and amortize those costs over the period of benefit. ASU 2014-09 allows, as a policy election, sales commissions related to contracts less than one year to be expensed as incurred instead of capitalized, as a practical expedient. The Company has elected this practical expedient. Therefore, only commissions related to contracts greater than one year will be capitalized.

Additionally, the Company has reviewed the way it manages volume tiered discounts and penalties. Currently, revenue adjustments are recorded as discounts or penalties when incurred. Under ASU 2014-09, these items will be treated as variable consideration and good faith estimates will be made up front, which will have the impact of reducing some of the revenue. Variable consideration will be reassessed quarterly.

Contract modifications under prior guidance were handled as modifications, if the adjustment was for additional hours on time and materials contracts, which were adjusted and charged as work is performed monthly. Under ASU

2014-09, we will continue to account for large scope changes with significant additional distinct services with related price increases that reflect our stand-alone selling price of the scope change as separate contracts. ASU 2014-09 allows, as a transition practical expedient, for contracts modified prior to the beginning of the earliest reporting period presented under the new standard (January 1, 2018 for the Company), an entity can reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented under the new standard when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition. We are electing this practical expedient.

Based on contracts in process at December 31, 2017, the Company expects to record, upon adoption of ASU 2014-09, a net cumulative adjustment to shareholders' equity not to exceed \$1.0 million. The adjustment to retained earnings primarily relates to the modification of the amortization of implementation related deferred revenues and costs. Sales commissions were not a material amount for open contracts at December 31, 2017 and, therefore, will not have an impact at adoption.

The Company will make certain presentation changes on its consolidated balance sheet to comply with the new standard.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a 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. ASU 2016-02 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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 impact of ASU 2016-02 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 No. 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”). ASU 2016-15 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. ASU 2016-15 is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses, ASU 2017-01 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017, and interim periods within those annual periods. ASU 2017-01 is not expected to have a material impact on the Company’s 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.

On May 10, 2017, the FASB issued ASU No. 2017-09, “Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”), clarifying when a change to the terms or conditions of a stock-based payment award must be accounted for as a modification. ASU 2017-09 requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. ASU 2017-09 is effective for the Company on a prospective basis beginning on January 1, 2018. ASU 2017-09 is not expected to have an impact on the Company’s consolidated financial statements as it is not the Company’s practice to change either the terms or conditions of stock-based payment awards once they are granted.

3. Acquisitions

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 through 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 as of the acquisition date), 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 December 31, 2016), subject to Conexus achieving certain operational and financial targets during the post-closing period ending December 31, 2016 (the “Earn-out Payment”), 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 December 31, 2017 or December 31, 2016 applicable to the Earn-out Payment.

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, which for 2016 included \$3.3 million of service fee revenue and approximately \$0.8 million of net loss.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods. The following table summarizes the 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.

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. During 2017, the Company paid an aggregate of \$2.4 million in settlement of the 2016 CrossView Earn-out Payments, of which \$0.4 million was paid by the issuance of 48,173 restricted shares of Company stock. The Company will pay 15% of any 2017 CrossView Earn-out Payments in restricted shares of Company common stock, based on its current market value at the time of issuance. As of December 31, 2017 and 2016, the Company had recorded a liability of \$4.0 million and \$4.1 million, respectively, applicable to the estimated CrossView Earn-out Payments, which is included in performance-based contingent payments in the consolidated balance sheets. The estimated performance-based contingent payment liability decreased from \$4.1 million as of December 31, 2016 as a result of the payment of the 2016 CrossView Earn-out Payments partially offset by an increase in the estimated 2017 CrossView Earn-out Payments resulting from updated CrossView financial projections for the 2017 earn-out period.

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 CrossView, including the amortization of acquired intangible assets, have been included in the Company's consolidated financial statements since the date of acquisition, which for 2015 included \$13.8 million of service fee revenue and \$0.6 million of net income.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods. The following table summarizes the estimated fair value of the tangible and intangible assets acquired and liabilities assumed (in thousands):

Accounts receivable	\$7,550
Other assets	590
Identifiable intangibles	9,050
Total assets acquired	17,190
Total liabilities assumed	2,556
Net assets acquired	14,634
Goodwill	30,221
Total purchase price	\$44,855

Purchase price for CrossView is as follows (in thousands, except share data and stock price):

Number of shares of common stock issued	553,223
Multiplied by PFSweb, Inc.'s stock price	\$11.40
Share consideration	\$6,307
Aggregate cash payments	30,740
Performance-based contingent payments (based on estimated fair value at acquisition date)	9,195
Post-closing balance sheet reconciliation adjustment	(1,387)
Total purchase price	\$44,855

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 \$30.2 million, which, given the structure of the acquisition, is expected to be deductible for tax purposes over 15 years is not being amortized and is subject to an annual impairment test using a fair-value-based approach.

Acquisition of Moda

On June 11, 2015, PFSweb, Inc. acquired the outstanding capital stock of Moda, an eCommerce system integrator and consultancy that provides unique digital experiences for fashion brands and retailers through its primary operations in London, U.K. Consideration paid for the shares included an initial £650,000 (approximately \$1.0 million) cash payment and 16,116 unregistered shares of Company stock (approximately \$0.2 million in value as of the acquisition date). The purchase agreement provided for earn-out payments (“Moda Earn-out Payments”) based on Moda’s

achievement of certain financial targets, subject to possible offsets for indemnification and other claims arising under the purchase agreement. Moda did not achieve the financial targets so the Company did not make any payments or record any liability as of December 31, 2017 or December 31, 2016 applicable to the Moda 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 Moda, including the amortization of acquired intangible assets, have been included in the Company's consolidated financial statements since the date of acquisition, which for 2015 included \$1.2 million of service fee revenue and \$0.2 million of net loss.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods. The following table summarizes the estimated fair value of the tangible and intangible assets acquired and liabilities assumed (in thousands):

Cash and cash equivalents	\$ 126
Accounts receivable	335
Identifiable intangibles	340
Other assets	50
Total assets acquired	851
Total liabilities assumed	658
Net assets acquired	193
Goodwill	1,287
Total purchase price	\$ 1,480

Purchase price for Moda is as follows (in thousands, except share data and stock price):

Number of shares of common stock issued	16,116
Multiplied by PFSweb, Inc.'s stock price	\$ 14.60
Share consideration contingent payments	\$ 235
Aggregate cash payments	1,005
Performance-based contingent payments (based on fair value at acquisition date)	240
Total purchase price	\$ 1,480

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 \$1.3 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.

Performance-Based Contingent Payments

The following table presents the change in the acquisition related performance-based contingent payments for the years presented (in thousands):

	2017	2016	2015
As of January 1,	\$4,083	\$ 14,157	\$ 5,392

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Fair value at the time of acquisition - Conexus	—	553	—
Fair value at the time of acquisition - Moda	—	—	240
Fair value at the time of acquisition - CrossView	—	—	9,195
CrossView earn-out payments in common stock and cash	(2,358)	(7,941)	—
LAL and REV earn-out payments in common stock and cash	—	(3,750)	(2,343)
Change in fair value aggregate balances due	2,242	1,064	1,673
As of December 31,	\$3,967	\$4,083	\$14,157

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Pro Forma Information (unaudited)

The following table presents selected pro forma information, for comparative purposes, assuming the acquisition of CrossView had occurred on January 1, 2014 and acquisition of Conexus had occurred on January 1, 2015 (unaudited) (in thousands, except per share amounts):

	Year Ended	
	December 31,	
	2016	2015
Total revenues	\$338,271	\$317,214
Net loss	(2,619)	(6,548)
Basic and diluted net loss per share	(0.14)	(0.37)

The unaudited pro forma total revenues and pro forma net loss are not necessarily indicative of the consolidated results of operations for future periods or the results of operations that would have been realized had the Company consolidated CrossView and Conexus during the periods noted. Unaudited pro forma results of operations assuming the Moda acquisition had taken place at the beginning of 2015 are not provided because the historical operating results of Moda were not significant and pro forma results would not be significantly different from reported results for the periods presented.

Acquisition-Related Expenses

The acquisitions are expected to enhance the overall product and service offering of the Company to its existing clients and customers, as well as support anticipated growth opportunities. The Company recorded \$1.5 million and \$3.5 million of acquisition-related expenses during the years ended December 31, 2016 and 2015, which are included in selling, general and administrative expenses in the consolidated statements of operations.

4. Deferred Revenues and Costs

The following summarizes the deferred implementation revenues and costs, excluding technology and development costs (in thousands):

	December 31,	
	2017	2016
Deferred implementation revenues		
Current	\$7,405	\$7,156
Non-Current	4,034	4,127
	\$11,439	\$11,283
Deferred implementation costs		
Current	\$2,703	\$2,770

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Non-Current	1,047	1,337
	\$3,750	\$4,107

Current deferred implementation costs are included in prepaid expenses and other current assets in the consolidated balance sheets. Non-current deferred implementation costs are included in other assets in the consolidated balance sheets.

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

5. Property and Equipment

The components of property and equipment as of December 31, 2017 and 2016 are as follows (in thousands):

	December, 31		Depreciable
	2017	2016	Life
Purchased and capitalized software costs	\$55,940	\$52,409	2-7 years
Furniture, fixtures and equipment	30,917	31,355	2-10 years
Computer equipment	16,657	16,771	2-6 years
Leasehold improvements	15,513	14,874	2-10 years
In-process assets	1,376	830	
	120,403	116,239	
Less-accumulated depreciation and amortization	(96,225)	(85,975)	
Property and equipment, net	\$24,178	\$30,264	

Depreciation and amortization expense related to property and equipment, excluding capital leases, for the years ended December 31, 2017, 2016 and 2015 was \$8.4 million, \$8.6 million and \$9.5 million, respectively.

The Company's property and equipment held under capital leases amount to approximately \$2.7 million and \$5.4 million, net of accumulated amortization of approximately \$6.8 million and \$5.1 million, at December 31, 2017 and 2016, respectively. Depreciation and amortization expense related to capital leases for the years ended December 31, 2017, 2016 and 2015 was \$3.1 million, \$2.8 million and \$2.4 million, respectively.

6. Goodwill and Identifiable Intangibles, Net

Goodwill acquired through acquisitions is recognized as part of the PFSweb segment. During 2017, goodwill decreased by \$0.5 million due to the impact of foreign currency translation for 2017 and prior periods. During 2016, the amount of goodwill increased by \$6.4 million due to acquisitions.

The Company performed its annual goodwill impairment test during the fourth quarter of 2017, 2016 and 2015 by completing a Step 0 test. During each year, the Company determined that it was not more likely than not that the reporting unit's fair value was less than its carrying value and, therefore, did not complete the prescribed two-step goodwill impairment test and thus the Company did not record any goodwill impairment during 2017, 2016 and 2015.

The following table presents the gross carrying value and accumulated amortization for identifiable intangibles (in thousands):

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	December 31, 2017			December 31, 2016			Estimated Useful Life from Acquisition
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	
Trade names	\$1,250	\$ (1,250)	\$ -	\$1,250	\$ (773)	\$ 477	2.25 - 2.5 years
Non-compete agreements	571	(499)	72	575	(341)	234	1- 3.5 years
Leasehold	45	(45)	-	45	(42)	3	2.5 years
Customer relationships	10,154	(7,177)	2,977	10,287	(5,137)	5,150	1.6 - 9 years
Developed technology	1,525	(1,219)	306	1,577	(622)	955	2.5-3 years
Other intangibles	493	(477)	16	493	(448)	45	9 years
Total definite-lived identifiable intangible assets	\$14,038	\$ (10,667)	\$ 3,371	\$14,227	\$ (7,363)	\$ 6,864	

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Definite-Lived Identifiable Intangible Asset Amortization

The changes in the net carrying values of identifiable intangible assets during 2017, 2016 and 2015 were primarily due to amortization expense of \$3.4 million, \$4.0 million and \$3.0 million, respectively, as well as the impact of foreign currency translation. Amortization expense is included in selling, general and administrative expenses in 2017, 2016 and 2015, respectively, in the consolidated statements of operations. The estimated amortization expense for each of the next five years is as follows (in thousands):

2018	\$1,565
2019	670
2020	471
2021	282
2022	197

7. Inventory Financing

Supplies Distributors has a short-term credit facility with IBM Credit LLC (“IBM Credit Facility”) to finance its purchase and distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to \$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 \$7.1 million and \$7.3 million as of December 31, 2017 and 2016, respectively, as trade accounts payable in the consolidated balance sheets. As of December 31, 2017, Supplies Distributors had \$0.4 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. The credit facility also contains financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$2.5 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (4.75% as of December 31, 2017). The facility also includes a monthly service fee. As of December 31, 2017, the Company was in compliance with all financial covenants.

Pursuant to IBM Credit Facility, Supplies Distributors is restricted from making any distributions to PFSweb if, after giving affect thereto, Supplies Distributors' would be in noncompliance with its financial covenants. Supplies Distributors has received lender approval to pay approximately \$1.7 million of dividends in 2018. Supplies Distributors paid dividends to PFSweb of \$1.7 million, \$1.1 million and \$0.9 million in 2017, 2016 and 2015, respectively, which eliminate upon consolidation.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

8. Debt and Capital Lease Obligations

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

	December 31,	
	2017	2016
U.S. Credit Agreement:		
Revolving loan	\$ 13,234	\$ 20,825
Term loan	27,000	29,438
Equipment loan	4,205	3,596
Debt issuance costs	(376)	(525)
Master lease agreements:		
Capital leases	2,903	5,838
Other financing	232	439
Other	128	88
Total	47,326	59,699
Less current portion of long-term debt	9,460	7,300
Long-term debt, less current portion	\$ 37,866	\$ 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 (the “Lenders”). The Credit Agreement replaced the Company’s previously existing credit facilities with Wells Fargo Bank, National Association (“Wells Fargo”) and Comerica Bank (“Comerica”). During 2015, as contemplated by the Credit Agreement, the Credit Agreement was expanded to also include Bank of America N.A. and HSBC Bank USA, National Association. 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 December 31, 2017, the Company had \$19.3 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 December 31, 2017 and 2016, the weighted average interest rate on the revolving loan facility was 4.65% and 3.25%, respectively. As of December 31, 2017 and 2016, the weighted average interest rate on the term loan facility was 4.05% and 3.32%, 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 inventory 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. At December 31, 2017 and 2016, the Company had restricted net assets of approximately \$63.3 million and \$71.6 million, respectively. As of December 31, 2017, the Company was in compliance with all debt covenants.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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.

Debt and Capital Lease Maturities

The Company's aggregate maturities of debt subsequent to December 31, 2017 are as follows, excluding \$0.4 million in debt issuance costs that reduce the carrying amount of the debt (in thousands):

Years ended December 31,	
2018	\$4,075
2019	3,902
2020	35,215
2021	1,034
2022	197
Total	\$44,423

The following is a schedule of the Company's future minimum lease payments under the capital leases, together with the present value of the net minimum lease payments as of December 31, 2017 (in thousands):

Years ended December 31,	
2018	\$2,256
2019	696
2020	80
2021	—
2022	—
Total minimum lease payments	\$3,032
Less amount representing interest at rates ranging from 4.75% to	
7.06%	\$(129)
Present value of net minimum lease payments	2,903
Less: Current portion	(2,151)
Long-term capital lease obligations	\$752

9. Stock and Stock Options

Preferred Stock Purchase Rights

On June 8, 2000, the Company's Board of Directors declared a dividend distribution of one preferred stock purchase right (a "Right") for each share of the Company's common stock outstanding on July 6, 2000 and each share of common stock issued thereafter. Each Right entitles the registered shareholders to purchase from the Company one one-thousandth of a share of preferred stock at an exercise price of \$65, subject to adjustment. The Rights are not currently exercisable, but would become exercisable if certain events occurred relating to a person or group acquiring or attempting to acquire 20 percent or more of the Company's outstanding shares of common stock. The Rights expire 30 days after the Company's 2018 Annual Meeting unless continuation of the Rights Agreement is approved by the stockholders of the Company at the 2018 Annual Meeting.

Stock Compensation Plans

The Company has an Employee Stock and Incentive Plan (the "Employee Plan"), as amended and restated, under which an aggregate of 5,942,340 shares of common stock have been authorized for issuance. The Employee 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 has historically issued service-based restricted stock and unit

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

awards, performance-based and market-based stock and unit awards (collectively “Restricted Shares”), and stock options. The Company uses newly issued shares of common stock to satisfy awards under the Plan.

The Company issues Restricted Shares 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. The weighted average fair value per share of Restricted Shares granted during the years ended December 31, 2017, 2016 and 2015 was \$6.43, \$8.73 and \$10.45, respectively. The total fair value of Restricted Shares vested under the Employee Plans was \$0.5 million, \$0.9 million and \$3.9 million during the years ended December 31, 2017, 2016 and 2015, respectively.

The underlying stock certificates for the Restricted Shares that vested December 31, 2017 are expected to be issued during the quarter ending March 31, 2018. The underlying stock certificates for the Restricted Shares that vested December 31, 2016 were issued during the quarter ended March 31, 2017. Based on the Company’s 2016 financial performance, no Restricted Shares were issued under the 2016 Performance Based Share Awards.

Total stock-based compensation expense was \$3.3 million, \$2.1 million and \$4.6 million for the years ended December 31, 2017, 2016 and 2015, respectively, and was included as a component of selling, general and administrative expenses in the consolidated statements of operations. As of December 31, 2017, there is \$2.6 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan, which is expected to be recognized over a remaining weighted average period of approximately 1.5 years. This expected cost does not include the impact of any future stock-based compensation awards.

As of December 31, 2017, there were 860,256 shares available for future grants under the Plan. Each stock option or stock appreciation right award granted reduces the total shares available for grant by one share, while each award granted other than in the form of a stock option or stock appreciation right reduces the shares available for grant by 1.22 shares.

Stock Options

The rights to purchase shares under employee stock option agreements issued under the Plan typically vest over a three-year period, one-twelfth each quarter. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued such that the exercise price is equal to the market value of the Company’s common stock at the date of grant.

The following tables summarize stock option activity under the Plans:

	Shares	Price Per Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2016	1,215,054		\$ 7.56		

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		\$1.01 -				
		\$15.36				
		\$6.69 -				
Granted	55,500	\$8.35	\$ 7.45			
		\$1.46 -				
Exercised	(168,823)	\$5.61	\$ 4.56			
		\$1.01 -				
Canceled	(65,889)	\$14.66	\$ 10.36			
		\$1.46 -				
Outstanding, December 31, 2017	1,035,842	\$15.36	\$ 7.87			
		\$1.46 -				
Exercisable, December 31, 2017	886,679	\$15.36	\$ 7.33	5.1	\$ 1.5	
		\$1.46 -				
Exercisable and expected to vest, December 31, 2017	1,027,181	\$15.36	\$ 7.83	5.6	\$ 1.5	

The weighted average fair value per share of options granted during the years ended December 31, 2017, 2016 and 2015 was \$3.58, \$5.88 and \$7.91, respectively. The total intrinsic value of options exercised under the Stock Option Plans was \$0.5 million, \$1.9 million and \$3.4 million during the years ended December 31, 2017, 2016 and 2015, respectively.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants of options under the Plans:

	Year Ended December 31,		
	2017	2016	2015
Expected dividend yield	—	—	—
	46%		
	-	50%	63%
Expected stock price volatility	50%	63%	68%
	2.0%	1.4%	1.5%
	-	-	-
Risk-free interest rate	2.2%	1.9%	1.8%
Expected life of options (years)	6	6	6

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock-price volatility. The assumptions listed above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if other assumptions had been used, the Company's recorded and pro forma stock-based compensation expense could have been different. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the Company's actual forfeiture rate is materially different from its estimate, the share-based compensation expense could be materially different. The Company calculates the expected stock price volatility using the Company's historical stock price during the expected term immediately preceding a stock option grant date. The Company has not paid dividends in the past and does not anticipate paying dividends in the future. The Company uses the risk-free interest rates of United States Treasury securities for a comparable term as the expected life of a stock option. The expected life of options has been computed using the simplified method, which the Company uses as it does not believe it has established a consistent exercise pattern to accurately estimate the expected term of stock options.

Service-Based Restricted Stock and Unit Awards

The Company's service-based restricted stock and unit awards are valued at the quoted market price of the Company's common stock as of the date of grant and vest over a range of two to four years. 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.

The following table summarizes the service-based restricted stock and unit award activity for the year ended December 31, 2017:

Shares	Weighted Average Grant Date Fair Value per
--------	---

		Share
Unvested restricted stock at December 31, 2016	14,763	\$ 11.26
Granted	187,556	\$ 6.46
Vested	(67,546)	\$ 7.40
Canceled	(22,204)	\$ 6.74
Unvested restricted stock at December 31, 2017	112,569	\$ 6.47

Performance-Based Restricted Stock and Unit Awards

Pursuant to the Employee Plan, the Company grants restricted stock and unit awards that vest upon reaching certain performance targets, and individual performance goals, which historically have been based on the Company's financial performance, Company operating income and other financial metrics for the current and/or future years. Such awards generally are subject to annual vesting from three to four years based upon continued employment and the achievement of the defined performance criteria. If the target set forth in the award agreement is not met, none of the related shares will vest and any compensation expense previously recognized will be reversed. The actual number of shares that will ultimately vest is dependent upon achieving the performance condition or other conditions set forth in the award agreement. The Company recognizes stock-based compensation expense related to performance awards based upon our determination of the likelihood of achieving the performance target or targets at each reporting date, net of estimated forfeitures.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The following table summarizes the performance-based restricted stock and unit award activity for the year ended December 31, 2017:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested restricted stock at December 31, 2016	61,818	\$ 6.40
Granted	226,887	\$ 7.10
Vested	—	\$ -
Canceled	(223,451)	\$ 7.11
Unvested restricted stock at December 31, 2017	65,254	\$ 6.40

Market-Based Restricted Stock and Unit Awards

Pursuant to the Employee Plan, the Company grants restricted stock and unit awards that vest upon the achievement of certain defined total stockholder return targets using the companies in the Russell Micro Cap Index as a comparative group for current and/or future years. Such awards generally are subject to annual vesting from three to four years based upon continued employment and the achievement of the defined performance criteria. The actual number of shares that will ultimately vest is dependent upon achieving the performance condition or other conditions set forth in the award agreement. 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. The Company reverses previously recognized compensation cost for market-based restricted stock unit awards only if the requisite service is not rendered.

The following table summarized the market-based restricted stock and unit award activity for the year ended December 31, 2017:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested restricted stock at December 31, 2016	63,128	\$ 7.83
Granted	197,880	\$ 5.65
Vested	(9,149)	\$ 5.06
Canceled	(47,109)	\$ 7.37
Unvested restricted stock at December 31, 2017	204,750	\$ 5.95

The fair value of each market-based restricted stock and unit award grant is estimated on the date of grant using a Monte-Carlo simulation with the following assumptions used for grants under the Plans:

	Year Ended December 31,		
	2017	2016	2015
Expected dividend yield	—	—	—
Expected stock price volatility	40.9%	34.6%	32.2%
Risk-free interest rate	1.4%	0.8%	1.3%
Expected term (years)	3	4	4
Weighted average grant date fair value	\$4.92	\$3.26	\$5.15 - \$6.74-\$12.87

Stock Units

Each non-employee Director of the Company's Board of Directors (the "Board") receives a quarterly retainer (the "Retainer") of \$25,000, payable on or about the first day of each quarter, through the issuance of an equity-based award (an "Award") under the Employee Plan in the form of a Deferred Stock Unit (a "DSU"). The number of DSUs is determined by dividing the Retainer by the immediately preceding closing price of the Common Stock. Each DSU represents the right to receive an equal number of shares of Common Stock upon the retirement, resignation or termination of service from the Board.

The following table summarizes the DSU activity for the year ended December 31, 2017:

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested deferred stock at December 31, 2016	118,346	\$ 10.77
Granted	63,960	\$ 7.82
Vested	—	\$ -
Unvested deferred stock at December 31, 2017	182,306	\$ 9.74

10. Income Taxes

The consolidated income (loss) from continuing operations before income taxes, by domestic and foreign entities, is as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Domestic	\$ (2,981)	\$ (6,362)	\$ (9,010)
Foreign	841	1,199	2,646
Total	\$ (2,140)	\$ (5,163)	\$ (6,364)

A reconciliation of the difference between the expected income tax expense (benefit) from continuing operations at the U.S. federal statutory corporate tax rate of 34% and the Company's effective tax rate is as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Income tax benefit computed at statutory rate	\$(728)	\$(1,755)	\$(2,164)
Foreign dividends received	591	388	193
Items not deductible for tax purposes	663	(956)	467
Change in valuation allowance	(10,503)	4,285	1,940
Impact of Tax Reform Act	12,112	—	—
State taxes	558	568	477
Foreign exchange rate difference	(102)	(67)	258
Net operating loss adjustments	—	183	167
Prior year return-to-provision true-up	(932)	(127)	(21)
Other	165	(152)	180
Provision for income taxes	\$1,824	\$2,367	\$1,497

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

On December 22, 2017, the United States government enacted the Tax Cuts and Jobs Act, commonly referred to as the Tax Reform Act. The Tax Reform Act includes significant changes to the U.S. income tax system, including, but not limited to: a federal corporate rate reduction from 35% to 21%; limitations on the deductibility of interest expense and executive compensation; repeal of the Alternative Minimum Tax (“AMT”); full expensing provisions related to business assets; creation of new minimum taxes, such as the base erosion anti-abuse tax (“BEAT”) and Global Intangible Low Taxed Income (“GILTI”) tax; and the transition of U.S. international taxation from a worldwide tax system to a modified territorial tax system, which will result in a one time U.S. tax liability on those earnings which have not previously been repatriated to the U.S. (the “Transition Tax”). The provisional impacts of this legislation are outlined below:

Beginning January 1, 2018, the U.S. corporate income tax rate will be 21%. The Company is required to recognize the impacts of this rate change on its deferred tax assets and liabilities in the period enacted. We remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Tax Reform Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount related to the remeasurement of our deferred tax balance was \$12.1 million that was mostly offset by a change in the valuation allowance, except for a \$0.6 million benefit that was recorded to our income statement related to tax amortization of goodwill.

The Transition Tax on unrepatriated foreign earnings is a tax on previously untaxed accumulated and current earnings and profits (“E&P”) of the Company’s foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, among other factors, the amount of post-1986 E&P of its foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. Based on the Company’s reasonable estimate of the Transition Tax, there is no provisional Transition Tax expense. The Company has not completed accounting for the income tax effects of the transition tax and is continuing to evaluate this provision of the Tax Reform Act.

The Tax Reform Act creates a new requirement that GILTI income earned by foreign subsidiaries must be included currently in the gross income of the U.S. shareholder. Due to the complexity of the new GILTI tax rules, the Company is continuing to evaluate this provision of the Tax Reform Act. Under U.S. GAAP, the Company is permitted to make an accounting policy election to either treat taxes due on future inclusions in U.S. taxable income related to GILTI as a current period expense when incurred or to factor such amounts into the Company’s measurement of its deferred taxes. The Company has not yet completed its analysis of the GILTI tax rules and is not yet able to reasonably estimate the effect of this provision of the Tax Reform Act or make an accounting policy election for the accounting treatment whether to record deferred taxes attributable to the GILTI tax. The Company has not recorded any amounts related to potential GILTI tax in the Company’s consolidated financial statements. The income tax effects recorded in the Company’s consolidated financial statements as a result of the Tax Reform Act are provisional in accordance with the Securities and Exchange Commission’s Staff Accounting Bulletin number 118 (“SAB 118”) as the Company has not yet completed its evaluation of the impact of the new law. SAB 118 allows for a measurement period of up to one year after the enactment date of the Tax Reform Act to finalize the recording of the related tax impacts.

The preliminary net tax effects recorded may differ in the future due to changes in the interpretations of the Tax Reform Act, legislative action, and changes to estimates we have utilized to calculate the tax impact. We expect to finalize the tax analysis related to the Tax Reform Act with the filing of our tax return and record any differences between the final and provisional amounts in the 2018 fourth quarter at that time, if any.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Current and deferred income tax expense (benefit) is summarized as follows (in thousands):

	December 31,		
	2017	2016	2015
Current			
Domestic	\$3	\$19	\$27
State	558	568	479
Foreign	1,537	957	933
Total Current	2,098	1,544	1,439
Deferred			
Domestic	127	824	—
State	12	3	3
Foreign	(413)	(4)	55
Total Deferred	(274)	823	58
Provision for income taxes	\$1,824	\$2,367	\$1,497

The components of the deferred tax asset (liability) are as follows (in thousands):

	Year Ended	
	December 31,	
	2017	2016
Deferred tax assets:		
Allowance for doubtful accounts	\$77	\$606
Inventory reserve	100	185
Property and equipment	708	244
Accrued expenses	1,353	1,803
Net operating loss carryforwards	14,608	23,883
Other	5,994	6,182
	22,840	32,903
Less - Valuation allowance	22,222	32,725
Total deferred tax assets	618	178
Deferred tax liabilities:		
Other	(951)	(824)
Total deferred tax liabilities	(951)	(824)
Deferred tax assets (liabilities), net	\$(333)	\$(646)

Management believes that PFSweb has not established a sufficient history of earnings, on a stand-alone basis, to support the more likely than not realization of certain deferred tax assets in excess of existing taxable temporary differences. A valuation allowance has been provided for the majority of these net deferred income tax assets as of December 31, 2017 and 2016. The remaining net deferred tax assets at both December 31, 2017 and 2016 primarily relate to the Company's European operations and certain state tax benefits and are included in other non-current and current assets on the consolidated balance sheets. At December 31, 2017, net operating loss ("NOL") carryforwards relate to taxable losses of PFSweb's Canadian subsidiary totaling approximately \$3.6 million and PFSweb's U.S.

subsidiaries totaling approximately \$61.2 million that expire at various dates from 2019 through 2036. The U.S. NOL also includes approximately \$4.4 million of NOL created before February 2006 subject to annual limits of \$1.4 million, and \$0.2 million acquired September 2014 subject to annual limits of \$0.1 million under IRS Section 382.

The Company evaluates its tax positions for potential liabilities associated with unrecognized tax benefits. The Company does not expect to record unrecognized tax benefits in the next twelve months.

For federal income tax purposes, tax years that remain subject to examination include years 2014 through 2017. However, the utilization of net operating loss carryforwards that arose prior to 2014 remains subject to examination through the years such carryforwards are utilized. For Europe, tax years that remain subject to examination include years 2015 to 2017. For Canada, tax years that remain subject to examination include years 2009 to 2017, depending on the subsidiary. For state income tax purposes, the tax years that remain subject to examination include years 2013 to 2017, depending upon the jurisdiction in which the Company files tax returns. The Company and its subsidiaries have various income tax returns in the process of examination. The Company does not expect these examinations will result in unrecognized tax benefits.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

11. Earnings Per Share

Basic and diluted net loss per 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: 1.0 million, 1.2 million and 1.3 million stock options for the years ended December 31, 2017, 2016 and 2015, respectively; 0.4 million, 0.2 million and 0.7 million performance shares and restricted stock units for the years ended December 31, 2017, 2016 and 2015, respectively; and 0.2 million, 0.1 million and 0.1 million deferred stock units for the years ended December 31, 2017, 2016 and 2015, respectively.

12. 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.

Minimum future annual rental payments under non-cancelable operating leases having original terms in excess of one year are as follows (in thousands):

	Operating Lease Payments
Year ended December 31,	
2018	\$ 10,217
2019	9,730
2020	9,168
2021	8,261
2022	7,496
Thereafter	13,888
Total	\$ 58,760

Total rental expense under operating leases approximated \$11.3 million, \$11.2 million and \$8.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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 December 31, 2017, the

Company believes it has adequately accrued for the expected assessment.

In April 2010, a sales employee of eCOST.com, Inc. (“eCOST”, the former name of Retail Connect) was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately \$0.6 million held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. In August 2012, the employee pleaded guilty to a misdemeanor. Neither the Company nor eCOST were charged with any criminal activity. During 2015, the matter was settled, and \$0.2 million of the subject funds were released to the Company. The Company recorded a \$0.4 million expense, included as a component of selling, general and administrative expenses in the consolidated statements of operations, to properly reflect the settlement.

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. PFS is generally required to indemnify its service fee clients against any third party claims asserted against such clients alleging infringement by PFS 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.

13. Segment and Geographic Information

The Company is currently organized into two primary operating segments, which generally align with the corporate organization structure. In the first segment, PFSweb is a global provider of various infrastructure, technology and digital agency

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 generally recognizes product revenue. Goodwill acquired through acquisitions is recognized as part of the PFSweb segment.

	Year Ended December 31,		
	2017	2016	2015
Revenues (in thousands):			
PFSweb	\$283,270	\$284,331	\$228,504
Business and Retail Connect	63,060	68,097	76,142
Eliminations	(19,505)	(17,785)	(16,377)
	\$326,825	\$334,643	\$288,269
Income (loss) from operations (in thousands):			
PFSweb	\$(2,127)	\$(5,730)	\$(6,338)
Business and Retail Connect	2,725	2,890	1,731
	\$598	\$(2,840)	\$(4,607)
Depreciation and amortization (in thousands):			
PFSweb	\$14,883	\$15,355	\$14,763
Business and Retail Connect	16	22	68
	\$14,899	\$15,377	\$14,831
Capital expenditures (in thousands):			
PFSweb	\$4,652	\$8,683	\$4,489
Business and Retail Connect	—	30	—
	\$4,652	\$8,713	\$4,489
	December 31,		
	2017	2016	
Assets (in thousands):			
PFSweb	\$157,585	\$167,152	
Business and Retail Connect	40,851	55,559	
Eliminations	(12,649)	(11,375)	
	\$185,787	\$211,336	

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Geographic areas in which the Company operates include the United States, Europe (primarily Belgium and U.K.), Canada and India. Substantially all of the services performed in India support client arrangements in the United States, where the resulting revenue is reported. The following is geographic information by area. Revenues are attributed based on the Company's domicile.

	Year Ended		
	December 31,		
	2017	2016	2015
Revenues (in thousands):			
United States	\$265,144	\$280,323	\$243,745
Europe	55,943	47,739	42,438
Canada	5,847	7,511	6,306
India	8,747	6,260	3,311
Inter-segment Eliminations	(8,856)	(7,190)	(7,531)
	\$326,825	\$334,643	\$288,269

	December 31,	
	2017	2016
Long-lived assets (in thousands):		
United States	\$62,257	\$70,313
Europe	10,425	11,182
Canada	170	202
India	4,256	4,095
	\$77,108	\$85,792

14. Employee Savings Plan

The Company has a defined contribution employee savings plan under Section 401(k) of the Internal Revenue Code. Substantially all full-time and part-time U.S. employees are eligible to participate in the plan. The Company, at its discretion, may match employee contributions to the plan and also make an additional matching contribution in the form of profit sharing in recognition of the Company's performance. The Company contributed approximately \$0.5 million \$0.4 million and \$0.3 million during the years ended December 31, 2017, 2016 and 2015, respectively, to match an approved percentage of employee contributions.

15. Quarterly Data – Seasonality (Unaudited)

The seasonality of the Company's business is dependent upon the seasonality of its clients' business and their sale of products. Management believes that with the Company's current client mix and their clients' business volumes, the

Company's service fee revenue business activity and pass-through revenue is at its highest in the quarter ended December 31 subject to transactional volumes of its clients. Supplier Distributors' product revenue business activity is generally expected to be more evenly distributed throughout the year. The Company's fourth quarter accounted for 28.4% and 30.6% of its net revenues for the years ended December 31, 2017 and 2016, respectively. The estimated performance-based liability related to the CrossView acquisition was increased by \$3.7 million during the three months ended December 31, 2016 based on CrossView's 2016 financial performance and updated projections for 2017.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Unaudited quarterly results of operations for the years ended December 31, 2017 and 2016 were as follows (amounts in thousands, except per share data):

	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Year Ended 2017				
Total revenues	\$78,768	\$78,066	\$ 77,318	\$92,673
(Loss) income from operations	(3,444)	(1,570)	1,167	4,445
Net (loss) income	(4,856)	(2,596)	(98)	3,586
Basic (loss) earnings per common share	\$(0.26)	\$(0.14)	\$(0.01)	\$0.19
Diluted (loss) earnings per common share	\$(0.26)	\$(0.14)	\$(0.01)	\$0.19
	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Year Ended 2016				
Total revenues	\$75,080	\$77,199	\$ 79,910	\$102,454
Income (loss) from operations	198	(1,385)	(6)	(1,647)
Net loss	(752)	(2,182)	(1,039)	(3,557)
Basic and diluted loss per common share	\$(0.04)	\$(0.12)	\$(0.06)	\$(0.19)

16. Subsequent Events

In January 2018, Supplies Distributors entered into Amendment No. 19 to the IBM Credit Facility. The Amended IBM Credit Facility adjusts the minimum borrowing under the facility from \$13.0 million to \$11.0 million and lowers the minimum PFS Subordinated Note receivable PFSweb is required to maintain from \$2.5 million to \$1.0 million.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls And Procedures

Evaluation of 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 (the “Exchange Act”). As of December 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 December 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.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed, under the supervision of our principle executive and principle financial officers, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America (GAAP). Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017. This evaluation was based on the framework in “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in Internal Control—Integrated Framework, our Chief Executive Officer and Chief Financial Officer concluded that internal control over financial reporting was effective as of December 31, 2017. BDO USA, LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2017, as stated in their report, which is included herein.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

PFSweb, Inc.

505 Millennium Dr.

Allen, TX 75013

Opinion on Internal Control over Financial Reporting

We have audited PFSweb, Inc. (the “Company’s”) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO criteria”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and schedule, and our report dated March 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Dallas, Texas

March 16, 2018

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers and Corporate Governance

Information required by Part III, Item 10, is incorporated herein by reference to the Company's Proxy Statement for its 2018 Annual Meeting of Shareholders (the "Proxy Statement").

Item 11. Executive Compensation

Information required by Part III, Item 11, set forth in our Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by Part III, Item 12, set forth in our Proxy Statement, is incorporated herein by reference.

The following table summarizes information with respect to equity compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2017:

Plan category (1)	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights (2)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by			
shareholders	1,674,027	\$ 7.33	860,256
Equity compensation plans not approved by	—		—

shareholders

- (1) See Note 9 to the Consolidated Financial Statements for more detailed information regarding the Company's equity compensation plans.
- (2) Excludes 176,726 service-based restricted stock units, 279,153 performance-based and market-based restricted stock units, and 182,306 deferred stock units.

Item 13. Certain Relationships and Related Transactions and Director Independence

Information regarding certain of our relationships and related transactions will be included in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information required by Part III, Item 14, set forth in our Proxy Statement, is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements

PFSweb, Inc. and Subsidiaries

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations and Comprehensive Loss

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Financial Statement Schedules

Schedule I – Condensed Financial Information of Registrant

Schedule II – Valuation and Qualifying Accounts

All other schedules are omitted because the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements or notes thereto.

2. Exhibits

Exhibit Number	Description of Exhibits <u>Amended and Restated</u>
3.1 (1)	<u>Certificate of</u> <u>Incorporation of</u> <u>PFSweb, Inc.</u> <u>Certificate of</u> <u>Amendment to</u>
3.1.1 (12)	<u>Amended and Restated</u> <u>Certificate of</u> <u>Incorporation of</u> <u>PFSweb, Inc.</u> <u>Certificate of</u> <u>Amendment to</u>
3.1.2 (20)	<u>Certificate of</u> <u>Incorporation of</u>

- PFSweb, Inc.
Certificate of
Amendment to
3.1.3 (23) Amended and Restated
Certificate of
Incorporation of
PFSweb, Inc.
Certificate of
Amendment to
- 3.1.4 (32) Amended and Restated
Certificate of
Incorporation of
PFSweb, Inc.
Amendment to the
Amended and Restated
- 3.1.5 (15) By-Laws of PFSweb,
Inc.
Amendment to the
Amended and Restated
- 3.1.6 (26) By-Laws of PFSweb,
Inc.
Amended and Restated
- 3.2 (1) Bylaws.
Amendment to the
Amended and Restated
- 3.2.3 (32) By-Laws of PFSweb,
Inc.
- 4.1 (18) Rights Agreement,
dated as of June 8, 2000,
between the Company
and ChaseMellon
Shareholder Services,
LLC.
- 4.1 (19) Amendment No. 1 to
Rights Agreement,
dated as of May 30,
2008 between the
Company and Mellon
Investor Services LLC,
as successor to
ChaseMellon
Shareholder Services,
L.L.C., as rights agent.
- 4.1 (25)

Amendment No. 2 to Rights Agreement, dated as of May 24, 2010 between the Company and Mellon Investor Services LLC, as successor to ChaseMellon Shareholder Services, L.L.C., as rights agent.

4.1 (26) Amendment No. 3 to Rights Agreement, dated as of July 2, 2010 between the Company and Mellon Investor Services LLC, as successor to ChaseMellon Shareholder Services, L.L.C., as rights agent.

4.1 (29) Amendment No. 4 to Rights Agreement, dated as of May 15, 2013 between the Company and Computershare Shareowner Services LLC (formerly known as Mellon Investor Services LLC,) as successor to ChaseMellon Shareholder Services, L.L.C., as rights agent.

4.1 (37) Amendment No. 5 to Rights Agreement, dated as of June 18, 2015 between the Company and Computershare, Inc., successor to Computershare Shareowner Services LLC (formerly known as Mellon Investor

Services LLC.) as
successor to
ChaseMellon
Shareholder Services,
L.L.C., as rights agent.

Exhibit Number	Description of Exhibits
4.1 (38)	<u>Amendment No. 6 to Rights Agreement, dated as of July 30, 2015 between the Company and Computershare, Inc., Computershare Shareowner Services LLC (formerly known as Mellon Investor Services LLC.) as successor to ChaseMellon Shareholder Services, L.L.C., as rights agent.</u>
10.1 (11)	<u>Amendment 6 to Agreement for Inventory Financing.</u>
10.2 (10)	<u>Amendment 5 to Amended and Restated Platinum Plan Agreement.</u>
10.3 (10)	<u>Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.</u>
10.4 (10)	<u>Amendment No. 5 to Agreement for Inventory Financing.</u>
10.5 (1)	<u>Industrial Lease Agreement between Shelby Drive Corporation and Priority Fulfillment Services, Inc.</u>

- 10.6 (1) Lease Contract between Transports Weerts and Priority Fulfillment Services Europe B.V.
- 10.7 (2) Form of Change of Control Agreement between the Company and certain of its executive officers.
- 10.8 (3) Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., Inventory Financing Partners, LLC and IBM Credit Corporation.
- 10.9 (3) Amended and Restated Collateralized Guaranty by and between Priority Fulfillment Services, Inc. and IBM Credit Corporation.
- 10.10 (3) Amended and Restated Guaranty to IBM Credit Corporation by PFSweb, Inc.
- 10.11 (3) Subordinated Demand Note by and between Supplies Distributors, Inc. and Priority Fulfillment Services, Inc.

- 10.12 (4) Form of Executive Severance Agreement between the Company and certain of its executive officers.

- 10.12.1 Form of Amendment to
(21) Executive Severance Agreement.

- 10.12.2 Form of Amendment to
(21) Change in Control Severance Agreement.

- 10.13 (5) Amendment to Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., Inventory Financing Partners, LLC and IBM Credit Corporation.

- 10.14 (6) Amendment to Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., and IBM Credit LLC.

- 10.15 (7) Second Amendment to Industrial Lease Agreement between ProLogis North Carolina Limited Partnership and Priority Fulfillment

Services, Inc.

- 10.16 (7) Modification, Ratification and Extension of Lease between Shelby Drive Corporation and Priority Fulfillment Services, Inc.
- 10.17 (8) Amendment 4 to Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., and IBM Credit LLC.
- 10.18 (8) Form of Modification to Executive Severance Agreement.
- 10.19 (9) Industrial Lease Agreement by and between Industrial Developments International, Inc. and Priority Fulfillment Services, Inc.
- 10.20 (9) Guaranty by PFSweb, Inc. in favor of Industrial Developments International, Inc.
- 10.21 (13) Amendment 7 to Agreement for Inventory Financing.

10.22 Amendment 6 to
(13) Amended and Restated
Platinum Plan
Agreement.

10.23 Agreement for IBM
(13) Global Financing
Platinum Plan Invoice
Discounting Schedule.

10.24 Amendment 8 to
(14) Agreement for
Inventory Financing.

Exhibit Number	Description of Exhibits
10.25 (14)	<u>Amendment 7 to Amended and Restated Platinum Plan Agreement.</u>
10.26 (14)	<u>Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.</u>
10.27 (16)	<u>Second Amendment to Industrial Lease Agreement by and between Industrial Property Fund VI, LLC and Priority Fulfillment Services, Inc.</u>
10.28 (17)	<u>Amendment 9 to Agreement for Inventory Financing.</u>
10.29 (17)	<u>Amendment 8 to Amended and Restated Platinum Plan Agreement.</u>
10.30 (17)	<u>Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.</u>
10.31 (22)	<u>Amendment 10 to Agreement for Inventory Financing.</u>
10.32 (22)	<u>Amendment 9 to Amended and Restated</u>

Platinum Plan
Agreement.

- 10.33 (22) Agreement for IBM
Global Financing
Platinum Plan Invoice
Discounting Schedule.
- 10.34 (23) Amended and Restated
2005 Employee Stock
and Incentive Plan of
PFSweb, Inc.
- 10.35 (24) Eighth Amended and
Restated Notes Payable
Subordination
Agreement by and
between Priority
Fulfillment Services,
Inc., Supplies
Distributors, Inc. and
IBM Credit
Corporation.
- 10.36 (24) Amendment 11 to
Agreement for
Inventory Financing.
- 10.37 (24) Amendment 10 to
Amended and Restated
Platinum Plan
Agreement.
- 10.38 (24) Agreement for IBM
Global Financing
Platinum Plan Invoice
Discounting Schedule.
- 10.39 (27) Amendment 12 to
Agreement for
Inventory Financing.

- 10.40 (27) Amendment 11 to Amended and Restated Platinum Plan Agreement.
- 10.41 (27) Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.
- 10.42 (28) Lease agreement by and between Binyan Realty LP and Priority Fulfillment Services, Inc.
- 10.43 (28) Lease Guaranty by PFSweb, Inc. in favor of Binyan Realty LP.
- 10.44 (28) Lease Agreement dated December 8, 2011, between CCI-Millennium, L.P. and Priority Fulfillment Services, Inc.
- 10.45 (28) Guaranty of PFSweb, Inc. to CCI-Millennium, L.P.
- 10.46 (28) Amendment 13 to Agreement for Inventory Financing.
- 10.47 (30) First Amendment to Industrial Lease Agreement dated May 7, 2013 by and between US Industrial REIT II and Priority Fulfillment Services, Inc.

- 10.48 (31) Agreement, dated as of May 15, 2013, by and among PFSweb, Inc. and Privet Fund LP, Privet Fund Management LLC, Ryan Levenson and Benjamin Rosenzweig.
- 10.49 (32) Modification, Ratification and Extension of Lease dated February 28, 2014 between Southpark Distribution Center Inc., (successor-in-interest to Shelby Drive Corporation) and Priority Fulfillment Services, Inc.
- 10.50 (34) Amendment 15 to Agreement for Inventory Financing dated March 28, 2014 by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., and IBM Credit LLC.
- 10.51 (35) Ninth Amended and Restated Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., Supplies Distributors, Inc. and IBM Credit Corporation.
- 10.52 (36) Form of 2015 Company Performance-Based

Restricted Stock Unit
Award Agreement.

10.53 Form of 2015 Individual
(36) Performance-Based
Restricted Stock Unit
Award Agreement.

10.54 Form of 2015
(36) Performance Shares
Award Agreement.

Exhibit Number	Description of Exhibits
10.55 (37)	<u>Credit Agreement dated August 5, 2015 by and among Priority Fulfillment Services, Inc., PFSweb, Inc., and certain Subsidiaries and Affiliates, Incremental Commitment Lenders and Regions Bank.</u>
10.56 (37)	<u>Asset Purchase Agreement by and among CrossView, Inc., Cardinal Asset Acquisition Corp., PFSweb, Inc., and Shareholders of CrossView, Inc.</u>
10.57 (37)	<u>Amendment 16 to Agreement for Inventory Financing by and among IBM Credit LLC and Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services Inc., and PFSweb, Inc.</u>
10.58 (38)	<u>First Incremental Loan Commitment Increase Agreement dated August 21, 2015 by and among Priority Fulfillment Services, Inc., PFSweb, Inc., and certain Subsidiaries and Affiliates, Incremental Commitment Lenders and Regions Bank.</u>

- 10.59 (38) Second Incremental Loan Commitment Increase Agreement dated August 21, 2015 by and among Priority Fulfillment Services, Inc., PFSweb, Inc., and certain Subsidiaries and Affiliates, Incremental Commitment Lenders and Regions Bank.
- 10.60 (39) Lease agreement dated March 17, 2016 by and between Stateline J, LLC and Priority Fulfillment Services, Inc.
- 10.61 (39) Guaranty dated March 21, 2016 by PFSweb, Inc., in favor of Stateline J, LLC.
- 10.62 (39) Deed of Sub-Lease dated December 31, 2015 by and between Milestone Buildcon Private Limited and PFSweb Global Services Private Limited.
- 10.63 (40) Lease agreement dated June 30, 2016 by and between US Industrial Reit III – Midwest and Priority Fulfillment Services, Inc.
- 10.64 (41) Second Amendment to Lease agreement dated October 20, 2016 by and between Stateline J, LLC and Priority

Fulfillment Services,
Inc.

- 10.65 (41) Lease Extension and Amending agreement dated May 31, 2016 by and between M&R Commercial Properties, Inc. and Priority Fulfillment Services of Canada, Inc.
- 10.66 (41) First Amendment to Lease agreement dated September 16, 2016 by and between Binyan Realty, LP and Priority Fulfillment Services, Inc.
- 10.67 (41) Second Amendment to Lease agreement dated September 16, 2016 by and between Binyan Realty, LP and Priority Fulfillment Services, Inc.
- 10.68 (42) Expansion Agreement and Amendment to Lease agreement dated June 20, 2016 by and between 2145312 Ontario, Inc. and Priority Fulfillment Services, Inc.
- 10.69 (42) Settlement and Release Agreement between Priority Fulfillment Services, Inc. and Cindy Almond.
- 10.70 (43) Form of 2017 STI Company Performance Based Cash Award.
- 10.71 (43) Form of 2017 STI Company Performance Based Share Award.
- 10.72 (43) Form of 2017 LTI Time Based Restricted Stock

- Unit Award.
- 10.73 (43) Form of 2017 LTI Non-Executive Time and Performance Based Restricted Stock Unit Award.
- 10.74 (43) Form of 2017 LTI TSR Executive Performance Based Share Award.
- 10.75 (46) Sixth Amendment to Lease Agreement by and between Western B. South MS, LLC and Priority Fulfillment Services, Inc. dated August 14, 2017.
- 10.76 (46) Amendment to Lease by and between GPT Stateline Road Owner LLC and Priority Fulfillment Services, Inc. dated September 12, 2017.
- 10.77 (47) Amendment 19 to Agreement for Inventory Financing.
- 21 (47) Subsidiary Listing.
- 23.1 (47) Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.
- 31.1 (47) Certifications of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.

Exhibit
Number Description of Exhibits

31.2 (47) Certifications of
Principal Financial
Officer Pursuant to 18
U.S.C. Section 1350.

32.1 (47) Certifications 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
(47) Document.

101.SCH XBRL Taxonomy
(47) Extension Schema.

101.CAL XBRL Taxonomy
(47) Extension Calculation
Linkbase.

101.DEF XBRL Taxonomy
(47) Extension Definition
Linkbase.

101.LAB XBRL Taxonomy
(47) Extension Label
Linkbase.

101.PRE XBRL Taxonomy
(47) 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 March 31, 2001.

(3) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2002.

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- (4) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2002.
- (5) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2002.
- (6) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2003.
- (7) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2003.
- (8) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2004.
- (9) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended September 30, 2004.
- (10) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2005.
- (11) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2005.
- (12) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2005.
- (13) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2006.
- (14) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2006.
- (15) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on November 13, 2007.
- (16) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2007.
- (17) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2008.
- (18) Incorporated by reference from PFSweb, Inc. Registration Statement on Form 8-A filed on June 14, 2000.
- (19) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on May 30, 2008.
- (20) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 2, 2008.
- (21) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on January 6, 2009.
- (22) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2008.
- (23) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2009.
- (24) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2010.
- (25) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on May 25, 2010.
- (26) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 2, 2010.
- (27) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2011.
- (28) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2011.
- (29) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on May 15, 2013.
- (30) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2013.
- (31) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on May 20, 2013.
- (32) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 18, 2013.
- (33) Incorporated by reference from PFSweb, Inc. Form 10-K for the year ended December 31, 2013.
- (34) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2014.
- (35) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2014.
- (36) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on April 6, 2015.
- (37) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 19, 2015.
- (38) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 30, 2015.
- (39) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2015.
- (40) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended September 30, 2015.
- (41) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2016.
- (42) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2016.

(43) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended September 30, 2016.

(44) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended March 31, 2017.

(45) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended June 30, 2017.

(46) Incorporated by reference from PFSweb, Inc. Form 10-Q for the quarterly period ended September 30, 2017.

(47) Filed herewith.

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SCHEDULE I

PFSWEB, INC. AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS – PARENT COMPANY ONLY

(In thousands)

	December 31, 2017	December 31, 2016
ASSETS:		
Cash and cash equivalents	\$ 618	\$ 144
Total current assets	618	144
Investment in subsidiaries	54,981	52,725
Total assets	\$ 55,599	\$ 52,869
LIABILITIES:		
Performance-based contingent payments	\$ 3,967	\$ 2,405
Total current liabilities	3,967	2,405
Performance-based contingent payments, less current portion	—	1,678
Payable to subsidiaries	10,335	8,503
Total liabilities	14,302	12,586
SHAREHOLDERS' EQUITY:		
Preferred stock	—	—
Common stock	19	19
Additional paid-in capital	150,614	146,286
Accumulated deficit	(109,281)	(105,317)
Accumulated other comprehensive income	70	(580)
Treasury stock	(125)	(125)
Total shareholders' equity	41,297	40,283
Total liabilities and shareholders' equity	\$ 55,599	\$ 52,869

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE I

PFSWEB, INC. AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF OPERATIONS – PARENT COMPANY ONLY

FOR THE YEARS ENDED DECEMBER 31

(In thousands)

	2017	2016	2015
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES:			
Selling, general and administrative expenses	\$5,451	\$3,008	\$5,594
Equity in net (income) loss of consolidated subsidiaries	(1,611)	4,408	2,130
Total operating expenses	3,840	7,416	7,724
Interest expense	124	114	137
NET LOSS	\$(3,964)	\$(7,530)	\$(7,861)

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE I

PFSWEB, INC. AND SUBSIDIARIES

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENTS OF CASH FLOWS – PARENT COMPANY ONLY

FOR THE YEARS ENDED DECEMBER 31

(In thousands)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(3,964)	\$(7,530)	\$(7,861)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation expense	3,333	2,111	4,637
Non-cash compensation expense	128	—	—
Change in performance-based contingent payments	2,242	1,011	891
Equity in net (income) loss of consolidated subsidiaries	(1,611)	4,408	2,130
Net cash provided by (used) in operating activities	128	—	(203)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions, net of cash acquired	—	(8,359)	(31,619)
Net cash used in investing activities	—	(8,359)	(31,619)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	770	1,203	1,483
Payments on performance-based contingent payments	(2,004)	(6,354)	—
Increase in payable from subsidiaries, net	1,580	13,349	30,089
Net cash provided by financing activities	346	8,198	31,572
NET INCREASE (DECREASE) IN CASH	474	(161)	(250)
CASH AND CASH EQUIVALENTS, beginning of period	144	305	555
CASH AND CASH EQUIVALENTS, end of period	\$618	\$144	\$305

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto.

SCHEDULE II

PFSWEB, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31

(Amounts in thousands)

	Balance at	Additions			Balance
	Beginning	Charge	Charge		at end
	of Period	to	to	Deductions	of
		Cost	Other		Period
		and	Accounts		
		Expense			
Year Ended December 31, 2017:					
Allowance for doubtful accounts	\$ 494	\$(26)	\$ —	\$ (95)	\$ 373
Reserve for excess and obsolete inventory	\$ 568	\$58	\$ —	\$ (284)	\$ 342
Year Ended December 31, 2016:					
Allowance for doubtful accounts	\$ 600	\$4	\$ —	\$ (110)	\$ 494
Reserve for excess and obsolete inventory	\$ 739	\$57	\$ —	\$ (228)	\$ 568
Year Ended December 31, 2015:					
Allowance for doubtful accounts	\$ 447	\$187	\$ —	\$ (34)	\$ 600
Reserve for excess and obsolete inventory	\$ 768	\$93	\$ —	\$ (122)	\$ 739

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael Willoughby and Thomas J. Madden, and each of them, either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Michael Willoughby Michael Willoughby	Chief Executive Officer (Principal Executive Officer)	March 16, 2018
/s/Thomas J. Madden Thomas J. Madden	Executive Vice President and Chief Financial and Accounting Officer (Principal Financial and Accounting Officer)	March 16, 2018
/s/James F. Reilly James F. Reilly	Chairman of the Board	March 16, 2018

/s/Monica Luechtefeld
Monica Luechtefeld Director March 16, 2018

/s/David I. Beatson Director March 16, 2018
David I. Beatson

/s/Benjamin Rosenzweig
Benjamin Rosenzweig Director March 16, 2018

/s/Shinichi Nagakura Director March 16, 2018
Shinichi Nagakura

/s/Peter J. Stein Director March 16, 2018
Peter J. Stein