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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2013

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller Reporting Company	☒

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

At May 10, 2013 there were 12,865,516 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2013

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,951	$ 19,626
Restricted cash	362	283
Accounts receivable, net of allowance for doubtful accounts of $ 404 and $ 450 at March 31, 2013 and December 31, 2012, respectively	40,501	45,684
Inventories, net of reserves of $ 1,752 and $ 1,789 at March 31, 2013 and December 31, 2012, respectively	20,643	24,654
Other receivables	7,712	7,675
Prepaid expenses and other current assets	4,325	4,346
Total current assets	91,494	102,268
PROPERTY AND EQUIPMENT, net	27,045	27,917
OTHER ASSETS	3,009	3,286
Total assets	$ 121,548	$ 133,471
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 19,290	$ 16,660
Trade accounts payable	31,988	40,493
Deferred revenue	6,943	6,648
Accrued expenses	20,860	23,097
Total current liabilities	79,081	86,898
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	4,664	5,400
DEFERRED REVENUE	6,889	7,562
DEFERRED RENT	5,375	5,560
Total liabilities	96,009	105,420
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $ 1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $ 0.001 par value; 35,000,000 shares authorized; 12,825,418 and 12,812,386 shares issued at March 31, 2013 and December 31, 2012, respectively; and 12,791,951 and 12,778,919 outstanding at March 31, 2013 and December 31, 2012, respectively	13	13
Additional paid-in capital	106,340	106,018
Accumulated deficit	(81,984)	(79,409)
Accumulated other comprehensive income	1,295	1,554
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	25,539	28,051
Total liabilities and shareholders' equity	$ 121,548	$ 133,471

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

PFSWEB, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2013	2012
REVENUES:		
Product revenue, net	$ 25,482	$ 34,551
Service fee revenue	28,002	28,378
Pass-through revenue	9,657	9,839
Total revenues	63,141	72,768
COSTS OF REVENUES:		
Cost of product revenue	23,515	31,682
Cost of service fee revenue	19,258	21,655
Cost of pass-through revenue	9,657	9,839
Total costs of revenues	52,430	63,176
Gross profit	10,711	9,592
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation expense of $ 303 and $ 340 in the three months ended March 31, 2013 and 2012, respectively	12,801	10,504
Loss from operations	(2,090)	(912)
INTEREST EXPENSE, net	218	264
Loss from operations before income taxes	(2,308)	(1,176)
INCOME TAX EXPENSE	267	109
NET LOSS	$ (2,575)	$ (1,285)
NET LOSS PER SHARE:		
Basic	$ (0.20)	$ (0.10)
Diluted	$ (0.20)	$ (0.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	12,786	12,765
Diluted	12,786	12,765
COMPREHENSIVE LOSS:		
Net loss	$ (2,575)	$ (1,285)
Foreign currency translation adjustment	(259)	275
TOTAL COMPREHENSIVE LOSS	$ (2,834)	$ (1,010)

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended March 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,575)	$ (1,285)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,408	2,142
Provision for doubtful accounts	6	41
Provision for excess and obsolete inventory	(21)	76
Deferred income taxes	(2)	(17)
Stock-based compensation expense	303	340
Changes in operating assets and liabilities:		
Restricted cash	74	2
Accounts receivable	4,927	10,970
Inventories, net	3,832	778
Prepaid expenses, other receivables and other assets	77	2,292
Deferred rent	(149)	5,445
Accounts payable, deferred revenue, accrued expenses and other liabilities	(10,543)	(3,667)
Net cash (used in) provided by operating activities	(1,663)	17,117
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,604)	(7,560)
Net cash used in investing activities	(1,604)	(7,560)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	19	—
Decrease (increase) in restricted cash	(153)	614
Payments on capital lease obligations	(627)	(376)
Proceeds from (payments on) long-term debt, net	2,486	(9,364)
Net cash provided by (used in) financing activities	1,725	(9,126)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(133)	39
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,675)	470
CASH AND CASH EQUIVALENTS, beginning of period	19,626	17,695
CASH AND CASH EQUIVALENTS, end of period	$ 17,951	$ 18,165
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and capital leases	$ 407	$ 2,238

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

1. *OVERVIEW AND BASIS OF PRESENTATION*

PFSweb, Inc. and its subsidiaries are collectively referred to as the "Company;" "Supplies Distributors" refers to Supplies Distributors, Inc. and its subsidiaries; "Retail Connect" refers to PFSweb Retail Connect, Inc.; and "PFSweb" refers to PFSweb, Inc. and its subsidiaries and affiliates, excluding Supplies Distributors and Retail Connect.

PFSweb Overview

PFSweb is an international business process outsourcing provider of end-to-end eCommerce solutions to major brand name companies seeking to optimize their supply chain and to enhance their traditional and online business channels and initiatives in the United States, Canada, and Europe. PFSweb offers a broad range of service offerings that include digital 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 Production Print Solutions, 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. Substantially all of Supplies Distributors' revenue is generated by its sale of product purchased from Ricoh.

Supplies Distributors has obtained financing that allows it to fund the working capital requirements for the sale of primarily Ricoh products. Pursuant to the transaction management services agreements between PFSweb and Supplies Distributors, PFSweb provides to Supplies Distributors transaction management and fulfillment services, such as managed web hosting and maintenance, procurement support, web-enabled customer contact center services, customer relationship management, financial services including billing and collection services, information management, and international distribution services. 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 products. Supplies Distributors sells its products in the United States, Canada and Europe.

All of the agreements between PFSweb and Supplies Distributors were made in the context of a related party relationship and were negotiated in the overall context of PFSweb's and Supplies Distributors' arrangement with Ricoh. Although management believes the terms of these agreements are generally consistent with fair market values, there can be no assurance that the prices charged to or by each company under these arrangements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services. All of these transactions are eliminated upon consolidation.

Basis of Presentation

The unaudited interim consolidated financial statements as of March 31, 2013, and for the three months ended March 31, 2013 and 2012, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim consolidated financial statements of the Company include all adjustments necessary for a fair presentation of the Company's financial position as of March 31, 2013, its results of operations for the three months ended March 31, 2013 and 2012 and its cash flows for the three months ended March 31, 2013 and 2012. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data on the income statement has been reclassified to conform to the current year presentation of a) product and pass-through revenues, b) cost of product, service fee and pass-through revenues and c) selling, general and administrative expenses, each of which was previously classified as a different component on the income statement. These reclassifications had no effect on previously reported net income (loss) or total shareholders' equity.

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 in the section entitled "Risk Factors." Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's consolidated financial statements are fairly stated in accordance with U.S. GAAP, and provide a fair presentation of the Company's financial position and results of operations.

Investment in Affiliates

Priority Fulfillment Services, Inc. ("PFS"), a wholly-owned subsidiary of PFSweb, Inc., has made advances to Supplies Distributors that are evidenced by a Subordinated Demand Note (the "Subordinated Note"). Under the terms of certain of the Company's debt facilities, the outstanding balance of the Subordinated Note cannot be increased to more than $5.0 million or decreased to less than $3.5 million without prior approval of certain of the Company's lenders. As of both March 31, 2013 and December 31, 2012, the outstanding balance of the Subordinated Note was $3.5 million. The Subordinated Note is eliminated in the Company's consolidated financial statements.

PFS has also made advances to Retail Connect, which aggregated $11.1 million at both March 31, 2013 and December 31, 2012. Certain terms of the Company's debt facilities provide that the total advances to Retail Connect may not be less than $2.0 million without prior approval of Retail Connect's lender, if needed. PFS has received the approval of its lender to advance incremental amounts to certain of its subsidiaries and/or affiliates, including Retail Connect, if needed, subject to certain financial covenants, as defined. PFSweb, Inc. has also advanced to Retail Connect an additional $8.4 million and $8.2 million as of March 31, 2013 and December 31, 2012, respectively. As of March 31, 2013, PFSweb, Inc. has approximately $5.2 million available to be advanced to Retail Connect and/or other affiliates. All of these advances are eliminated upon consolidation.

Concentration of Business and Credit Risk

One service fee client represented over 10% of the Company's consolidated total net revenue and accounts receivable during the three months ended March 31, 2013.

A summary of the nonaffiliated customer and client concentrations is as follows:

	Three Months Ended March 31,	
	2013	2012
Product Revenue (as a percentage of total Product Revenue):		
Customer 1	16%	14%
Customer 2	13%	9%
Service Fee Revenue (as a percentage of total Service Fee Revenue):		
Client 1	17%	15%
Client 2	9%	17%
Accounts Receivable: Client 1	10%	9%

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

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

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

As a result of certain operational restructuring of its business, Ricoh has implemented, and will continue to implement, certain changes in the sale and distribution of Ricoh products. The changes have resulted and are expected to continue to result, in reduced revenues and profitability for Supplies Distributors in 2013.

Inventories

Inventories (all of which are finished goods) are stated at the lower of weighted average cost or market. 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 PFS, 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.

Operating Leases

The Company leases certain real estate for its warehouse, call center and corporate offices, as well as certain equipment under non-cancelable operating leases that expire at various dates through 2022. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other similar leases. The Company recognizes escalating lease payments on a straight-line basis over the term of each respective lease with the difference between cash payments and rent expense recognized being recorded as deferred rent in the accompanying consolidated balance sheets.

Property and Equipment

The Company's property held under capital leases amounts to approximately $4.9 million and $5.1 million, net of accumulated amortization of approximately $3.2 million and $2.6 million, at March 31, 2013 and December 31, 2012, respectively. Depreciation and amortization expense related to capital leases during the three months ended March 31, 2013 and 2012 was $0.4 million in both periods. In addition, during 2012, the Company incurred approximately $6.0 million of leasehold improvements at certain of its leased facilities that will be amortized over the shorter of the asset's useful lives or the lease terms and were primarily financed via tenant allowances that will also be amortized over the lease terms.

Income Taxes

The Company records a tax provision primarily associated with state income taxes and its Supplies Distributors subsidiary's international operations. The Company has recorded a valuation allowance for the majority of its net deferred tax assets.

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately $0.2 million and $0.3 million in the three months ended March 31, 2013 and 2012, respectively. Income taxes of approximately $9,000 and $0.1 million were paid by the Company during the three month periods ended March 31, 2013 and 2012, respectively.

3. *NET LOSS PER COMMON 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. Stock options not included in the calculation of diluted net loss per share for the three months ended March 31, 2013, and 2012 were 2.0 million and 2.1 million, respectively, as the effect would be anti-dilutive.

4. *VENDOR FINANCING*

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to $20.0 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 $12.7 million and $11.9 million as of March 31, 2013 and December 31, 2012, respectively, as accounts payable in the consolidated balance sheets. As of March 31, 2013, Supplies Distributors had $0.9 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. The credit facility also contains financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $3.5 million and the Company is required to maintain a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (3.75% as of March 31, 2013). The facility also includes a monthly service fee.

5. *DEBT AND CAPITAL LEASE OBLIGATIONS;*

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

	March 31, 2013	December 31, 2012
Loan and security agreements		
Supplies Distributors	$ 5,146	$ 3,264
PFS	12,052	11,077
Credit facility – Retail Connect	—	—
Master lease agreements	6,124	6,648
Other	632	1,071
Total	23,954	22,060
Less current portion of long-term debt	19,290	16,660
Long-term debt, less current portion	$ 4,664	$ 5,400

Loan and Security Agreement – Supplies Distributors

Supplies Distributors has a loan and security agreement with Wells Fargo Bank, National Association ("Wells Fargo") to provide financing for up to $25 million of eligible accounts receivable in the United States and Canada. As of March 31, 2013, Supplies Distributors had $1.0 million of available credit under this agreement. The Wells Fargo facility expires on the earlier of March 2014 or the date on which the parties to the Ricoh distributor agreement no longer operate under the terms of such agreement and/or Ricoh no longer supplies products pursuant to such agreement. Borrowings under the Wells Fargo facility accrue interest at prime rate plus 0.25% to 0.75% (3.75% as of March 31, 2013) or Eurodollar rate plus 2.5% to 3.0%, dependent on excess availability and subject to a minimum of 3.0%, as defined. The interest rate as of March 31, 2013 was 3.75% for $3.1 million of outstanding borrowings and 3.0% for $2.0 million of outstanding borrowings. As of December 31, 2012, the interest rate was 3.75% for $1.3 million of outstanding borrowings and 3.0% for $2.0 million of outstanding borrowings. This agreement 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. This agreement also contains financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than $3.5 million, may not maintain restricted cash of more than $5.0 million and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors has entered into blocked account agreements with its banks and Wells Fargo pursuant to which a security interest was granted to Wells Fargo for all U.S. and Canadian customer remittances received in specified bank accounts. At March 31, 2013 and December 31, 2012, these bank accounts held $0.3 million and $0.2 million, respectively, which were restricted for payment to Wells Fargo.

Loan and Security Agreement – PFS

PFS has a Loan and Security Agreement ("Comerica Agreement") with Comerica Bank ("Comerica"). The Comerica Agreement provides for up to $12.5 million ($10.0 million during certain non-seasonal peak months) of eligible accounts receivable financing ("Working Capital Advances") through March 2014. The Comerica Agreement also provided for up to $3.0 million of eligible equipment purchases ("Equipment Advances") through January 2013, with principal payments due through April 2015. As of March 31, 2013, PFS had $2.7 million of available credit under the Working Capital Advance portion of this facility and no remaining availability for Equipment Advances. Borrowings under the Working Capital Advance portion of the Comerica Agreement accrue interest at prime rate plus 2% (5.25% at March 31, 2013) while the Equipment Advances accrues interest at prime rate plus 2.25% (5.5% at March 31, 2013). The Comerica Agreement contains cross default provisions and various restrictions upon PFS' ability 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.), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of $20 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement restricts the amount of the Subordinated Note receivable from Supplies Distributors to a maximum of $5.0 million. Comerica has provided approval for PFS to advance incremental amounts subject to certain financial covenants, as defined, to certain of its subsidiaries and/or affiliates, if needed. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb, Inc.

Credit Facility – Retail Connect

Retail Connect has an asset-based line of credit facility of up to $3.0 million from Wells Fargo, through May 2013, which is collateralized by substantially all of Retail Connect's assets. Borrowings under the facility are limited to a percentage of eligible accounts receivable and inventory, up to a specified amount. Outstanding borrowings under the facility bear interest at prime rate plus 1% or Eurodollar rate plus 3.5%. There were no outstanding borrowings as of March 31, 2013. As of March 31, 2013, Retail Connect had $0.1 million of available credit under this facility. In connection with the line of credit, Retail Connect entered into a cash management arrangement whereby Retail Connect's operating accounts are considered restricted and swept and used to repay outstanding amounts under the line of credit, if any. The credit facility restricts Retail Connect's ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb, Inc.), make investments and loans, pledge assets, make changes to capital stock ownership structure, and requires a minimum tangible net worth for Retail Connect of $0 million, as defined. PFSweb has guaranteed all current and future obligations of Retail Connect under this line of credit.

Factoring Agreement

Supplies Distributors' European subsidiary has a factoring agreement with BNP Paribas Fortis Factor that provides factoring for up to 7.5 million euros (approximately $9.6 million as of March 31, 2013) of eligible accounts receivable through March 2014. This factoring agreement is accounted for as a secured borrowing. As of March 31, 2013, Supplies Distributors' European subsidiary had approximately 1.2 million euros (approximately $1.5 million) of available credit under this agreement. Borrowings accrue interest at Euribor plus 0.7% (0.8% at March 31, 2013).

Debt Covenants

To the extent the Company or any of its subsidiaries fail to comply with its covenants applicable to its debt or vendor financing obligations, including the monthly financial covenant requirements, such as profitability and cash flow, and required level of shareholders' equity or net worth (as defined), the Company would be required to obtain a waiver from the lender or the lender would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral and enforcement of payment under the Company parent guarantee. Any acceleration of the repayment of the credit facilities may have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. As of March 31, 2013, the Company was in compliance with all debt covenants.

Master Lease Agreements

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

6 . *SEGMENT 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 an international provider of various business process outsourcing 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.

	Three Months Ended March 31,	
	2013	2012
Revenues (in thousands):		
PFSweb	$ 38,453	$ 39,679
Business and Retail Connect	27,405	34,725
Eliminations	(2,717)	(1,636)
	$ 63,141	$ 72,768
Income (loss) from operations (in thousands):		
PFSweb	$ (2,547)	$ (1,740)
Business and Retail Connect	457	828
	$ (2,090)	$ (912)

	Three Months Ended March 31,	
	2013	2012
Depreciation and amortization (in thousands):		
PFSweb	$ 2,369	$ 2,126
Business and Retail Connect	39	16
	$ 2,408	$ 2,142
Capital expenditures (in thousands):		
PFSweb	$ 1,588	$ 7,485
Business and Retail Connect	16	75
	$ 1,604	$ 7,560

	March 31, 2013	December 31, 2012
Assets (in thousands):		
PFSweb	$ 86,576	$ 94,940
Business and Retail Connect	48,907	52,648
Eliminations	(13,935)	(14,117)
	$ 121,548	$ 133,471

7. *COMMITMENTS AND CONTINGENCIES*

In 2012, the Company incurred approximately $6.0 million of leasehold improvements at certain of its leased facilities that will be amortized over the shorter of the assets lives or the lease terms and were primarily financed via tenant allowances that will also be amortized over the lease terms.

The Company received municipal tax abatements in certain locations. In prior years, the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to the Company's tax abatement. The Company disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against the Company and the timing of the related payments has not been finalized. As of March 31, 2013, the Company believes it has adequately accrued for the expected assessment.

In April 2010, a sales employee of 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 $620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. The Company received subpoenas from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and the Company has responded to the subpoenas and is fully cooperating with the Office of the U.S. Attorney. In August 2012, the employee pleaded guilty to a misdemeanor. Neither the Company nor eCOST have been charged with any criminal activity, and the Company intends to seek the recovery or reimbursement of the funds that are currently classified as other receivables on the March 31, 2013 financial statements. Based on the information available to date, the Company is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of the Company to recover such funds or any significant portion thereof, or any costs and expenses incurred by the Company in connection with this matter will not have a material adverse effect upon the Company's financial condition or results of operations.

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 alleging infringement by PFS of the patents, trademarks and other intellectual property rights of third parties.

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

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

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2012, 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 or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with International Business Machines Corporation ("IBM") and Ricoh Company Limited and Ricoh Production Print Solutions, a strategic business unit within the Ricoh Family Group of Companies, (collectively hereafter referred to as "Ricoh");
- our dependence upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending 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;
- the reliance on third-party 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;
- 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;
- relationship with, and our guarantees of, certain of the liabilities and indebtedness of our subsidiaries; and
- taxation on the sale of our products.

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee these expectations actually will 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.

Overview

We are an international business process outsourcing provider of end-to-end eCommerce solutions. We provide these solutions to major brand name companies seeking to optimize their supply chain and to enhance their traditional and online business channels and initiatives. We derive our revenues from providing a broad range of services as we process individual business transactions on our clients' behalf using three different seller services financial models: 1) the Enablement model, 2) the Agent (or Flash) model and 3) the Retail model.

We refer to the standard PFSweb seller services financial model as the Enablement model. In this model, our clients own the inventory and are the merchants of record and engage us to provide various business outsourcing services in support of their business operations. We derive our service fee revenues from a broad range of service offerings that include digital marketing, eCommerce technologies, 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 infrastructure needs to a single source and to focus on their core competencies. Our distribution services are conducted at warehouses we lease or manage. We currently provide infrastructure and distribution solutions to clients that operate in a range of vertical markets, including technology manufacturing, computer products, cosmetics, fragile goods, contemporary home furnishings, apparel, aviation, telecommunications, consumer electronics and consumer packaged goods, among others.

In this model, we typically charge for our services on a cost-plus basis, a percent of shipped revenue basis 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.

As an additional service, we offer our second model, the Agent, or Flash, financial model, in which our clients maintain ownership of the product inventory stored at our locations as in the Enablement 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.

Finally, our Retail model allows us to purchase inventory from the client just as any other client reseller partner. 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. Consequently, in this model, we generate product revenue, as we 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. In this model we recognize product revenue for customer sales. Freight costs billed to customers are reflected as components of product revenue. This business model generally requires significant working capital requirements, for which we have credit available either through credit terms provided by our client or under senior credit facilities.

In general, we provide the Enablement and Agent (or Flash) models through our PFS and Supplies Distributors subsidiaries and the Retail model through our Supplies Distributors and PFSweb Retail Connect subsidiaries.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our Enablement 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 two primary target markets, online brands and retailers and technology manufacturers, which, by nature, require a longer duration to close but also have the potential to be higher-quality and longer duration engagements.

Currently, any growth within our Retail model would be primarily driven by our ability to attract new distributor arrangements with Ricoh or other manufacturers and the sales and marketing efforts of the manufacturers and third party sales partners. As a result of certain operational restructuring of its business, Ricoh has implemented, and will continue to implement, certain changes in the sale and distribution of Ricoh products. The changes have resulted, and are expected to continue to result, in reduced revenues and profitability under our Retail model in 2013.

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.

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

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

Results of Operations

For the Interim Periods Ended March 31, 2013 and 2012

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):

	Three Months Ended March 31,				
				% of Net Revenues	
Revenues	2013	2012	Change	2013	2012
Product revenue, net	$ 25.5	$ 34.6	$ (9.1)	40.8%	47.5%
Service fee revenue	28.0	28.4	(0.4)	44.8%	39.0%
Pass-through revenue	9.6	9.8	(0.2)	14.4%	13.5%
Total net revenues	63.1	72.8	(9.7)	100.0%	100.0%
Cost of Revenues					
Cost of product revenue (1)	23.5	31.7	(8.2)	92.3%	91.7%
Cost of service fee revenue (2)	19.3	21.7	(2.4)	68.8%	76.3%
Pass-through cost of revenue (3)	9.6	9.8	(0.2)	100.0%	100.0%
Total cost of revenues	52.4	63.2	(10.8)	83.0%	86.8%
Product revenue gross profit	2.0	2.9	(0.9)	7.7%	8.3%
Service fee gross profit	8.7	6.7	2.0	31.2%	23.7%
Pass-through gross profit	—	—	—	— %	— %
Total gross profit	10.7	9.6	1.1	17.0%	13.2%
Selling General and Administrative expense	12.8	10.5	2.3	20.3%	14.4%
Loss from operations	(2.1)	(0.9)	(1.2)	(3.3)%	(1.2)%
Interest expense, net	0.2	0.3	(0.1)	0.3%	0.4%
Loss before income taxes	(2.3)	(1.2)	(1.1)	(3.6)%	(1.6)%
Income tax expense, net	0.3	0.1	0.2	0.4%	0.1%
Net loss	$ (2.6)	$ (1.3)	$ (1.3)	(4.0)%	(1.7)%

· % of net revenues represents the percent of Product revenue, net.
· % of net revenues represents the percent of Service fee revenue.
· % of net revenues represents the percent of Pass-through revenue.

Product Revenue, net. Product revenue was $25.5 million for the three months ended March 31, 2013, which represents a decrease of $9.1 million or 26.2% as compared to the same quarter of the prior year. This reduction in revenue is primarily due to the operational restructuring by Ricoh of its business, which has resulted, and will continue to result, in changes in the sale and distribution of Ricoh products and lower product revenue. We currently expect product revenue to be approximately $90 million to $95 million in 2013.

Service Fee Revenue. The decrease in service fee revenue for the three months ended March 31, 2013 as compared to the same period of the prior year was primarily due to decreased service fees from both existing and terminated client relationships, partially offset by the impact of new client relationships that began in 2012 and early 2013.

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

	Three Months
Period ended March 31, 2012	$ 28.4
New service contract relationships	2.4
Change in existing client service fees	(2.7)
Terminated clients not included in 2013 revenue	(0.1)
Period ended March 31, 2013	$ 28.0

Our service fee revenue has been negatively impacted and will continue to be negatively impacted in 2013 by the conclusion or anticipated reduction of operations of several client programs. Based on current client projections for fiscal year 2013, we currently expect the reduction in revenue derived from these client programs to be offset in part, but not in whole, by new or expanded client opportunities.

Cost of Product Revenue. The cost of product revenue decreased by $8.2 million, or 25.8%, to $23.5 million in the three months ended March 31, 2013. The resulting gross profit margin was $2.0 million, or 7.7% of product revenue, for the three months ended March 31, 2013 and $2.9 million, or 8.3% of product revenue, for the comparable 2012 period. The gross profit was negatively impacted by reduced product revenue primarily attributable to the Ricoh restructuring activities, which we expect to continue in 2013. The gross profit margin for 2013 and 2012 includes the impact of incremental gross margin earned on product sales resulting from certain product price increases and the impact of certain incremental inventory cost reductions.

Cost of Service Fee Revenue. Gross profit as a percentage of service fees was 31.2% in three month period ended March 31, 2013 and 23.7% in the same period of 2012. The gross profit percentage increase resulted from a change in the client mix, improved operating efficiencies and an increased level of higher margin client project activity. Additionally, the three months ended March 31, 2013 included an incremental benefit of $0.6 million applicable to certain client transition related agreements, which we also expect to continue into the quarter ended June 30, 2013.

We target to earn an overall average gross profit of 25-30% on existing and new service fee contracts, but we have accepted, and may continue to accept, lower gross margin percentages on certain contracts depending on contract scope and other factors including projected volumes.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the three months ended March 31, 2013 and 2012 were $12.8 million and $10.5 million, respectively. As a percentage of total net revenue, selling, general and administrative expenses were 20.3% in the three months ended March 31, 2013 and 14.4% in the prior year period. The increase in costs is primarily related to certain restructuring related charges of approximately $2.3 million and an increase in personnel related costs and depreciation and amortization expense in the three months ended March 31, 2013. The prior year period included approximately $0.5 million of lease termination costs and $0.6 million of relocation related costs relating to our facility relocations and expansions in 2012. Excluding the restructuring related charges, lease termination costs and relocation related costs in both 2013 and 2012, as a percent of total net revenue, selling, general and administrative expenses were 16.6% in the three months ended March 31, 2013 and 13.0% in the prior year period.

Income Taxes. We recorded a tax provision associated primarily with state income taxes, our subsidiary Supplies Distributors' Canadian and European operations and our Philippines operations. A valuation allowance has been provided for the majority of our net deferred tax assets, which are primarily related to our net operating loss carryforwards and certain foreign deferred tax assets. We expect we will continue to record an income tax provision associated with state income taxes, Supplies Distributors' Canadian and European results of operations and our Philippines operations.

Liquidity and Capital Resources

During the three months ended March 31, 2013, we used $1.7 million of cash from operating activities primarily due to a $10.5 million decrease in accounts payable, deferred revenue, accrued expenses and other liabilities related to reduced inventory purchases as a result of a reduction in product revenue, reduced service fee business payables and accrual levels due to reduced business volumes from the seasonally higher fourth quarter, and a reduction related to timing of various vendor and client reimbursable payments. This use of cash was partially offset by a $4.9 million decrease in accounts receivable mostly applicable to our services business following the December 31 seasonal peak period and a $3.8 million reduction in inventories related to reduced product revenue.

During the three months ended March 31, 2012, we generated $17.1 million of cash from operating activities primarily due to an $11.0 million decrease in accounts receivable mostly applicable to our services business following the December 31 seasonal peak period, a $5.4 million increase in deferred rent related to tenant allowance improvements, a $2.3 million decrease in prepaid expenses, other receivables and other assets primarily related to decrease in value-added tax receivable at our European subsidiary and a $0.8 million reduction in inventories related to reduced product revenue. These inflows were partially offset by a $3.7 million decrease in accounts payable, deferred revenue, accrued expenses and other liabilities following the timing of payments we make for products and services, payment processing and related transactions costs. Included in our cash flows from operating activities is also $1.3 million of cash income from continuing operations before working capital changes.

In the three months ended March 31, 2013, we incurred capital expenditures of $1.6 million which consisted primarily of payments for internally developed software and capital leases on equipment. Proceeds from debt, net of a decrease in restricted cash and payments on capital leases, was $1.7 million in the three months ended March 31, 2013.

In the three months ended March 31, 2012, we incurred capital expenditures of $7.6 million, exclusive of $2.2 million of property and equipment acquired under debt and capital lease financing. This included capital expenditures related to our new corporate headquarters and call center facility, which are being financed by the landlords through tenant allowances. Cash used for payments on debt and capital leases, net of a decrease in restricted cash, was $9.1 million in the three months ended March 31, 2012.

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 services for the upcoming twelve months, including costs to implement new clients, will be approximately $9 million to $11 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements, debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financing or achieve the financial results necessary to support such investments.

During the three months ended March 31, 2013, our working capital decreased to $12.4 million from $15.4 million at December 31, 2012 primarily due to capital expenditures and the impact of certain restructuring related accruals. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including the sale of equity, utilizing capital or operating leases, borrowing under our credit facilities, expanding our current credit facilities or entering into new debt agreements. No assurances can be given we will be successful in obtaining any additional financing or the terms thereof. We currently believe our cash position, financing available under our credit facilities and funds generated from operations will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries, if necessary, for at least the next twelve months.

In support of certain debt instruments and leases, as of March 31, 2013, we had $0.3 million of cash restricted for repayment to lenders. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain of our subsidiaries' credit facilities. Many of these facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other credit facilities and agreements. These covenants include, among others, minimum levels of net worth, profitability and cash flow (as defined) and restrictions on the ability of the borrower subsidiaries to advance funds to other borrower subsidiaries. As a result, it is possible for one or more of these borrower subsidiaries to fail to meet their respective covenants even if another borrower subsidiary otherwise has available excess funds, which, if not restricted, could be used to cure the default. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders' equity, 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 and enforcement of payment under our parent guarantee. A requirement to accelerate the repayment of the credit facility obligations may have a material adverse impact on our financial condition and results of operations. We can provide no assurance we will have the financial ability to repay all such obligations. As of March 31, 2013, 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. 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.

In the future, we may attempt to acquire other businesses or seek an equity or strategic partner to generate capital or expand our services or capabilities in connection with our efforts to grow our business. Acquisitions involve certain risks and uncertainties and may require additional financing. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire or an equity or strategic partner, whether we or they will be able to obtain financing to complete a transaction, or whether we or they will be successful in operating the acquired business.

We receive municipal tax abatements in certain locations. In prior years, we received notice from a municipality that we did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to our tax abatement. We disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against us and the timing of the related payments has not been finalized. As of March 31, 2013, we believe we have adequately accrued for the expected assessment.

In April 2010, a sales employee of 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 $620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. We received subpoenas from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and have responded to such subpoenas and are fully cooperating with the Office of the U.S. Attorney. In August 2012, the employee pleaded guilty to a misdemeanor. Neither the Company nor eCOST have been charged with any criminal activity, and we intend to seek the recovery or reimbursement of such funds, that are currently classified as other receivables in the March 31, 2013 financial statements. Based on the information available to date, we are unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or our inability to recover such funds or any significant portion thereof, or any costs and expenses we may incur in connection with such matter will not have a material adverse effect upon our financial condition or results of operations.

Supplies Distributors Financing

To finance its distribution of Ricoh products in the U.S., Supplies Distributors has a short-term credit facility with IBM Credit LLC (“IBM Credit”) that provides financing for up to $20.0 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.

Supplies Distributors also has a loan and security agreement with Wells Fargo Bank, National Association (“Wells Fargo”) to provide financing for up to $25.0 million of eligible accounts receivables in the United States and Canada. The Wells Fargo facility expires on the earlier of March 2014 or the date on which the parties to the Ricoh distributor agreement no longer operate under the terms of such agreement and/or Ricoh no longer supplies products pursuant to such agreement.

Supplies Distributors’ European subsidiary has a factoring agreement with BNP Paribas Fortis Factor (“BNP Paribas”) to provide factoring for up to 7.5 million Euros (approximately $9.6 million at March 31, 2013) of eligible accounts receivables through March 2014.

These credit facilities contain cross default provisions, 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), 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 cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth 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 $3.5 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 structure and a minimum shareholders’ equity of at least $18.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries under these facilities if they are unable to do so. We have also provided a guarantee of substantially all of the obligations of Supplies Distributors and its subsidiaries to IBM and Ricoh.

PFS Financing

Our PFS subsidiary has a Loan and Security Agreement (“Comerica Agreement”) with Comerica Bank, which provides for up to $12.5 million ($10.0 million during certain non-seasonal peak-months) of eligible accounts receivable financing through March 2014. The Comerica Agreement also provided for up to $3.0 million of eligible equipment financing (“Equipment Advances”). Outstanding Equipment Advances have a final maturity date of April 15, 2015. We entered into this Comerica Agreement to supplement our existing cash position and provide funding for our current and future operations, including our

targeted growth. The Comerica 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 (including entities directly or indirectly owned by PFSweb), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of $20.0 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement also limits PFS' ability to increase the subordinated loan to Supplies Distributors to more than $5.0 million and permits PFS to advance incremental amounts to certain of its subsidiaries and/or affiliates subject to certain financial covenants, as defined. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb.

Retail Connect Financing

Retail Connect has an asset-based line of credit facility for up to $3.0 million of eligible financing with Wells Fargo, which is collateralized by substantially all of Retail Connect's assets and expires in May 2013. The facility is expected to be renewed prior to its maturity. Borrowings under the facility and letter of credit availability are limited to a percentage of accounts receivable and inventory, up to specified amounts. As of March 31, 2013, Retail Connect had $0.1 million of available credit under this facility. The credit facility restricts Retail Connect's ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as a minimum tangible net worth for Retail Connect of $0 million, as defined. PFSweb has guaranteed all current and future obligations of Retail Connect under this line of credit.

Seasonality

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

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

Inflation

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

Critical Accounting Policies

A description of our critical accounting policies is included in Note 2 of the consolidated financial statements in our December 31, 2012 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). As of March 31, 2013, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the period that ended on March 31, 2013, there was no change in internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

In addition to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the Securities and Exchange Commission on April 1, 2013, our business, financial condition and operating results could be adversely affected by any or all of the following factors.

General Risks Related to Our Business

We operate with significant levels of indebtedness and are required to comply with certain financial and non-financial covenants; we are required to maintain a minimum level of subordinated loans to our subsidiary Supplies Distributors; and we have guaranteed certain indebtedness and obligations of our subsidiaries PFS, Supplies Distributors and Retail Connect.

As of March 31, 2013, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of Ricoh product inventory, was approximately $37 million. Certain of the credit facilities have maturity dates in calendar year 2014 or beyond, but are classified as current liabilities in our consolidated financial statements given the underlying nature of the credit facility. We cannot provide assurance that our credit facilities will be renewed by the lending parties. Additionally, these credit facilities include both financial and non-financial covenants, many of which also include cross default provisions applicable to other agreements. These covenants also restrict our ability to transfer funds among our various subsidiaries, which may adversely affect the ability of our subsidiaries to operate their businesses or comply with their respective loan covenants. We cannot provide assurance that we will be able to maintain compliance with these covenants. Any non-renewal, default under or acceleration of any of our credit facilities may have a material adverse impact upon our business and financial condition. In addition we have provided $3.5 million of subordinated indebtedness to Supplies Distributors as of March 31, 2013. The maximum level of this subordinated indebtedness to Supplies Distributors that may be provided without approval from our lenders is $5.0 million. The restrictions on increasing this amount without lender approval may limit our ability to comply with certain loan covenants or grow and support Supplies Distributors' business. We have guaranteed most of the indebtedness of Supplies Distributors. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors by its lenders to the extent Supplies Distributors is unable to do so. We have also guaranteed Retail Connect's $3.0 million credit line, as well as certain of its vendor trade payables.

Specific Risks Related to Our Business Process Outsourcing Business

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

For the three months ended March 31, 2013, two clients represented approximately 26% of service fee revenue (excluding pass-through revenue) and approximately 16% of consolidated revenue. We currently anticipate that both of these clients and other clients will reduce the level of services or terminate their relationship with us so that, unless we are able to increase our service fee revenue from other existing or new clients or adjust our operating costs, such reduction or termination of services would have a material adverse effect upon our business, results of operation and financial condition.

The majority of our Supplies Distributors product revenue is generated by sales of product purchased under distributor agreements with Ricoh. These agreements are terminable at will and no assurance can be given that Ricoh will continue the distributor agreements with Supplies Distributors. Supplies Distributors does not have its own sales force and relies upon Ricoh's sales force and product demand generation activities for its sale of Ricoh product. As a result of certain operational restructuring of its business, 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 in 2013. Further reduction in the Ricoh business may have a material adverse effect on Supplies Distributors' business and our overall financial condition.

Sales by Supplies Distributors to two customers in the aggregate accounted for approximately 29% of Supplies Distributors' total product revenue and 12% of consolidated net revenues in the three month period ended March 31, 2013. The loss of one or both of such customers, or non-payment of any material amount by these or any other customer would have a material adverse effect upon Supplies Distributors' business results of operations and financial condition.

Risks Related to Our Stock

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

As of March 31, 2013, we have an aggregate of 2.0 million stock options outstanding to employees, directors and others with a weighted average exercise price of $4.54 per share. The shares of common stock that may be issued upon exercise of these options may be resold into the public market. Sales of substantial amounts of common stock in the public market as a result of the exercise of these options, or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosure

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

a)Exhibits:

Exhibit No.	Description of Exhibits
3.1(1)	Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.1(2)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.2(4)	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3(5)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2(1)	Amended and Restated By-Laws
3.2.1(3)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.2(6)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
10.1**	First Amendment to Industrial Lease Agreement dated May 7, 2013 by and between US Industrial REIT II and Priority Fulfillment Services, Inc.
31.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB**	XBRL Taxonomy Extension Label Linkbase.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase.

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

*Filed Herewith

**Furnished Herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 15, 2013

PFSweb, Inc.

By: /s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer
Chief Accounting Officer
Executive Vice President

FIRST AMENDMENT TO INDUSTRIAL LEASE AGREEMENT

This First Amendment to Industrial Lease Agreement ("***First Amendment***") is entered into the 7th day of May, 2013 ("***Amendment Effective Date***"), by and between by and between US INDUSTRIAL REIT II, a Texas real estate investment trust ("***Landlord***"), and PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("***Tenant***").

WHEREAS, under that certain Industrial Lease Agreement dated April 7, 2011, by and between Landlord and Tenant (the "***Lease***"), Tenant leases premises consisting of approximately 54,000 sq. ft. (the "***Demised Premises***") known as 8655 Commerce Drive, Suite 104 in the building known as Building D in Stateline Business Park, Southhaven, DeSoto County, Mississippi, as more particularly described in the Lease; and

WHEREAS, Landlord and Tenant desire to add to the Demised Premises those certain premises (the "***Expansion Premises***") identified on **Exhibit A** to the Lease as the "Right of First Refusal Space"; and

WHEREAS, Landlord and Tenant desire to extend the Expiration Date of the Primary Term to May 31, 2018 (as such date may be adjusted as hereinafter provided); and

WHEREAS, Landlord and Tenant desire to further amend the Lease as provided herein.

NOW THEREFORE, in consideration of the rentals to be paid and the covenants and agreements to be kept and performed by both parties hereto, Landlord and Tenant hereby agree to amend the Lease as follows:

· Effective as of the Expansion Commencement Date (as hereinafter defined), Section 1(b) of the Lease, entitled Demised Premises Square Footage, shall be deleted in its entirety and replaced with the following:

"(b) Demised Premises Square Footage: (i) approximately 27,000 sq. ft. during the First Period and Second Period, (ii) approximately 54,000 sq. ft. during the Third Period and during any portion of the Fourth Period occurring prior to the Expansion Commencement Date, and (ii) 108,000 sq. ft. during any portion of the Fourth Period occurring on and after the Expansion Commencement Date and during each period thereafter."

· Effective as of the Expansion Commencement Date, Section 1(e) of the Lease, entitled Monthly Base Rent Installments, shall be deleted in its entirety and replaced with the following:

"(e) Monthly Base Rent Installments:

May 12, 2011 – August 10, 2011, which is the 90-day period commencing on the Lease Commencement Date (the "First Period"):	$ 0.00

August 11, 2011 – February 07, 2012, which is the 180-day period commencing on the Base Rent Commencement Date (the "Second Period"):	$ 7,087.50
February 8, 2012 – May 31, 2013, which is the 15-month period commencing on the 181st day after the Base Rent Commencement Date and ending on the last day of the 15th full calendar month thereafter, which period includes a Fractional Month (as defined below in this Section)* (the "Third Period"):	$ 15,075.00
June 1, 2013– the date that is 13 months after the Expansion Commencement Date (as defined in Section 2 of the Lease), which period may include a Fractional Month*(the "Fourth Period"):	$15,975.00 for the portion of the Fourth Period commencing on June 1, 2013 and ending on the last day of the four (4)-month period commencing on the Expansion Commencement Date, which period may include a Fractional Month* ("Expansion Rent Abatement Period").** $32,175.00 for the period commencing on the day following the last day of the Expansion Rent Abatement Period and ending on the last day of the ninth (9th) full calendar month thereafter, which period may include a Fractional Month*.
The 12-month period commencing on the day following the last day of the Fourth Period (the "Fifth Period"):	$ 33,525.00
The 12-month period commencing on the day following the last day of the Fifth Period (the "Sixth Period"):	$ 34,200.00
The 12-month period commencing on the day following the last day of the Sixth Period (the "Seventh Period"):	$ 35,100.00
The 10-month period commencing on the day following the last day of the Seventh Period (the "Eighth Period"):	$ 36,000.00

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*As used in this Lease, a "***Fractional Month***" means (i) during the Third Period, the period commencing on February 8, 2012, and ending on February 29, 2012; and (ii) with respect to the Fourth Period, if the Expansion Commencement Date does not occur on the first day of a calendar month, then both of the following periods: (a) the period commencing on the first day of the month in which the Expansion Commencement Date occurs and ending on the day before the Expansion

Commencement Date, and (b) the period commencing on the Expansion Commencement Date and ending on the last day of the calendar month in which the Expansion Commencement Date occurs. By way of example, if the Expansion Commencement Date occurs on June 15, 2013, then (i) the Fourth Period shall still commence on June 1, 2013, but the Fourth Period (including the Fractional Months comprised of June 1-14, 2013 and June 15-30, 2013) shall end on July 31, 2014, (ii) the Fifth Period shall commence on August 1, 2014 and end on July 31, 2015, (iii) the Sixth Period shall commence on August 1, 2015 and end on July 31, 2016, (iv) the Seventh Period shall commence on August 1, 2016 and end on July 31, 2017, and (v) the Eighth Period shall commence on August 1, 2017 and end on May 31, 2018. The Base Rent applicable to the Third Period and the Fourth Period shall include the prorated amount applicable to any such Fractional Month, which prorated amount shall be due on the first day of the Fractional Month. Upon the request of either party after Substantial Completion (as defined in Section 17(f) with respect to the initial Improvements and Section 17(g) with respect to the Expansion Work (as defined in Section 17(g)), Landlord and Tenant shall promptly execute a letter in substantially the form of Exhibit F Notice of Lease Term Dates in order to confirm the Lease Commencement Date, Base Rent Commencement Date, Expansion Commencement Date, Expiration Date and the first and last days of the First Period, Second Period, Third Period, Fourth Period, Fifth Period, Sixth Period, Seventh Period, Eighth Period and any Fractional Month.

**If any Event of Default occurs under this Lease on or before the expiration of the Expansion Rent Abatement Period, the Base Rent abatement provided for during the Expansion Rent Abatement Period shall immediately terminate, and any portion of the $15,975.00 monthly Base Rent, which has then previously been abated with respect to the Expansion Premises, shall immediately become due and payable."

Section 1(f) Lease Commencement Date is deleted in its entirety and replaced with the following:

"(f)(i) Lease Commencement Date: May 12, 2011; and
(ii)Expansion Commencement Date: June 1, 2013, subject to extension pursuant to Section 17(g) below. With respect to the Expansion Premises, references to the "Lease Commencement Date" mean the Expansion Commencement Date."

· Section 1(h) Expiration Date is deleted in its entirety and replaced with the following:

"(h)Expiration Date: The last day of the Eighth Period."

· Section 1(i) Primary Term is deleted in its entirety and replaced with the following:

"(i)Primary Term: 83 months and 19 days, plus any Fractional Months in the Fourth Period.

· Section 1(j) Tenant's Operating Expense Percentage is deleted in its entirety and replaced with the following:

“(j)Tenant’s Operating Expense Percentage (it being agreed that Tenant’s Operating Expense Percentage during the First and Second Periods is the amount set forth below, notwithstanding any other provision contained herein):

During the First Period:	0.00%
During the Second Period:	6.60%
During the Third Period:	13.20%
During the Fourth Period up to the day before the Expansion Commencement Date:	13.20%
During the Fourth Period from and after the Expansion Commencement Date to and including the last day of the Fourth Period	26.39%
During the Fifth Period:	26.39%
During the Sixth Period:	26.39%
During the Seventh Period:	26.39%
During the Eighth Period:	26.39%

· Section 1(n) Address for Notices to Tenant: Subject to Tenant’s right to change its address for receipt of notices, Tenant’s notice address is:

Priority Fulfillment Services, Inc.
505 Millennium Drive
Allen, TX 75013

· Section 1(p) Address for Notices to Guarantor: Subject to Guarantor’s right to change its address for receipt of notices, Guarantor’s notice address is:

PFSweb, Inc.
505 Millennium Drive
Allen, TX 75013

· Section 2 Demised Premises is amended to reflect that commencing on the Expansion Commencement Date, the Demised Premises shall be expanded to include the Expansion Premises, which is the space referred to in the Lease as the Right of First Refusal Space, which space is depicted on **Exhibit A** of the Lease, is comprised of 54,000 sq. ft. and shall sometimes be

referred to herein as the "***Expansion Premises***". Accordingly, from and after the Expansion Commencement Date, the Demised Premises shall be comprised of 108,000 sq. ft. and **Exhibit A** to the Lease is amended to delete the reference to "REFUSAL SPACE" and replace it with "EXPANSION PREMISES".

- Section 4 Base Rent is amended to add the following sentence at the end: "As provided in Section 1(e), if the Expansion Commencement Date shall fall on a day other than the first day of a calendar month, the Base Rent shall be apportioned pro rata on a per diem basis for the resulting Fractional Months in the Fourth Period (which pro rata payment shall be due and payable on the first day of each Fractional Month).

- Section 15 is amended to delete clause (c) in the second to the last sentence and replace it with the following:

"(c) Tenant shall be obligated to pay (as Additional Rent, payable in the same manner and upon the same terms and conditions as the Base Rent reserved hereunder) (i) Tenant's proportionate share (based on Tenant's Operating Expense Percentage) of the portion of such amortized costs attributable to the remainder of the Term, including any extensions thereof, to the extent incurred to make any Code Modification respecting the Building or the Building Common Area (and not any portion of the Demised Premises) due to a Governmental Requirement enacted or promulgated after the Lease Commencement Date, and (ii) the entire portion of such amortized costs attributable to the remainder of the Term, including any extensions thereof, to the extent incurred to make any Code Modification respecting the Demised Premises (and not any portion of the Building or Building Common Area) due to a Governmental Requirement enacted or promulgated after the Lease Commencement Date."

- Exhibit C Special Stipulations – Environmental Matters is amended to add the following at the beginning of the paragraph:

"Notwithstanding anything contained in this Lease, to the extent governmentally required, Landlord shall be responsible, at no cost to Tenant, and Tenant shall not have any liability to Landlord, for cleanup, removal and remediation of Contamination, to the extent attributable to Hazardous Substances existing or generated, on, from, under or about the Expansion Premises prior to the Expansion Commencement Date, unless caused or exacerbated by Tenant's violation of any applicable Environmental Laws or any breach by Tenant of its obligations under the Lease."

- Exhibit C Special Stipulations—Options is amended to delete Sections 1 and 7 in their entirety and to add the new Section 7 Termination Option below. Landlord and Tenant acknowledge and agree that Tenant has no options or rights under the Lease to expand the Demised Premises or any options to extend the Term.

"7. Termination Option. Provided that no Event of Default shall exist under this Lease or would exist but for the pendency of any cure period provided for in Section 22 of the Lease, unless such Event of Default requires notice under Section 22 and Landlord has not delivered such notice to Tenant, either on the date Tenant delivers its Termination Notice (as hereinafter defined) or on the Termination Date (as hereinafter defined), Tenant shall have the one-time right to terminate

this Lease with respect to the entire Demised Premises as of the end of August 31, 2016 (the "***Termination Date***"), by delivering to Landlord on or before February 29, 2016, notice of its intention to terminate (the "***Termination Notice***") accompanied by a payment of a termination fee (the "***Termination Fee***") to Landlord in the amount of $215,000.00. Tenant's failure to pay such Termination Fee simultaneously with Tenant's delivery of its Termination Notice shall render void the termination of this Lease and this Lease shall continue in full force and effect. Tenant shall pay all Rent due to and through the Termination Date specified in accordance with the terms of the Lease and shall surrender the Demised Premises to Landlord on or before the Termination Date in the manner and in the condition provided for in the Lease. Tenant shall permit Landlord or its Agents, at any time and without notice, but otherwise subject to the terms of Section 23 of the Lease, to enter the Demised Premises, without charge therefore to Landlord and without diminution of Rent, to exhibit the same to prospective tenants from and after the date Tenant delivers the Termination Notice. The Termination Fee shall not be deemed to be Rent payable under the terms of the Lease, but rather shall be deemed liquidated damages payable by Tenant to Landlord in consideration of Landlord's agreement to terminate the Lease as herein provided."

· Condition of the Expansion Premises. Except for Landlord's express obligations to construct the Expansion Work (including, without limitation, Punchlist items), to maintain and repair the Building, to perform Code Modifications under Section 15 of the Lease and with respect to Hazardous Substances and Contamination under Section 4 of Exhibit C to the Lease (collectively, the "***Continuing Obligations***"), which Continuing Obligations shall survive the Expansion Commencement Date and Tenant's acceptance of possession of the Expansion Premises, TENANT ACCEPTS THE EXPANSION Tenant's taking possession of the Expansion Premises shall be conclusive evidence for all purposes of Tenant's acceptance of the Expansion Premises in good order and satisfactory condition, and in a state and condition satisfactory, acceptable and suitable for the Tenant's use pursuant to the Lease and this First Amendment. Without limitation to the foregoing, the construction contract Landlord executes for the Expansion Work shall require the general contractor to warrant that the Expansion Work has been completed in accordance with the Expansion Plans (as defined in Paragraph 13 of this Amendment) and in a good and workmanlike manner, free from faulty materials and workmanship for a period of one (1) year following the date of Substantial Completion (the "***Expansion Work Warranty***"). Landlord agrees and acknowledges that Tenant is a beneficiary of such Expansion Work Warranty obtained from contractor and Landlord shall enforce for the benefit of Tenant the Expansion Work Warranty.

· Expansion Work. Section 17 of the Lease is amended to add the following subsection (g):

"(g)Expansion Work. Prior to the Expansion Commencement Date, Landlord shall place all existing systems serving the Expansion Premises in good working order and install additional Improvements to the Demised Premises and Improvements to the Expansion Premises (collectively, the "***Expansion Work***") subject to the terms of this Section 17(g). Landlord shall have non-exclusive reasonable rights of entry to the Demised Premises for the purpose of constructing the Expansion Work. Landlord's entry to the Demised Premises for the purpose of performing Expansion Work shall be subject to the terms and conditions of the Lease, including, without limitation Section 23 of the Lease (except that prior notice shall not be required); provided, however that Tenant and Landlord will reasonably cooperate with each other to

coordinate their respective activities in the Demised Premises so as not to unreasonably interfere with Landlord's construction of the Expansion Work.

(i) Within fifteen (15) days after the Amendment Effective Date, Landlord shall deliver to Tenant Plans and Specifications for the Expansion Work (the "***Expansion Plans***"). Except for such changes, if any, as shall be required to comply with applicable Governmental Requirements, the Expansion Plans shall be based upon and be drafted in accordance with the preliminary plans and specifications and/or preliminary floor plans (the "***Expansion Preliminary Plans***") set forth on Exhibit B-1 attached hereto and incorporated herein. Tenant shall have ten (10) business days after Landlord's delivery to Tenant of the Expansion Plans, (the "***Approval Period***") to review and to deliver to Landlord notice of either Tenant's approval of the Expansion Plans or Tenant's requested changes to the Expansion Plans. Tenant shall have no right to request any changes to the Expansion Plans which would materially alter the Demised Premises, the Expansion Premises or the exterior appearance or basic nature of the Building, as the same are contemplated by the Expansion Preliminary Plans. If Tenant fails to approve or request changes to the Expansion Plans by the end of the Approval Period, then Tenant shall be deemed to have approved the Expansion Plans and the same shall thereupon be final. If Tenant requests any changes to the Expansion Plans, then Landlord shall make those changes which are reasonably requested by Tenant and shall within ten (10) days of its receipt of such request submit the revised portion of Expansion Plans to Tenant. Tenant may not thereafter disapprove the revised portions of the Expansion Plans unless Landlord has unreasonably failed to incorporate reasonable comments of Tenant and, subject to the foregoing, the Expansion Plans, as modified by said revisions, shall be deemed to be final upon the submission of said revisions to Tenant. Landlord and Tenant shall at all times in their respective preparation or review of the Expansion Plans, and of any revisions thereto, act reasonably and in good faith. After Tenant has approved the Expansion Plans or the Expansion Plans have otherwise been finalized pursuant to the procedures set forth hereinabove, any subsequent Change Order to the Expansion Plans requested by Tenant shall be at Tenant's sole cost and expense and subject to Landlord's written approval, which approval shall not be unreasonably withheld, conditioned or delayed. In the event Landlord approves any such requested Change Order, Landlord shall give written notice thereof to Tenant, which notice will specify the Change Order approved by Landlord as well as a fixed price estimate of the incremental cost thereof ("Change Order Estimate"). The cost to Tenant for Change Orders shall be the amount of the Change Order Estimate plus five percent (5%) of such amount as Landlord's overhead ("Change Order Costs"). If the collective Change Order Costs for Change Orders approved by Landlord and Tenant exceed $25,000.00, Tenant acknowledges and agrees that Landlord shall be under no obligation to proceed with any work related to approved Change Orders unless and until Tenant delivers to Landlord an amount equal to the amount by which such Change Order Costs, collectively, exceed $25,000.00 as set forth in a notice from Landlord setting forth such Change Order Costs. Tenant shall have five (5) business days from receipt of such Change Order Estimate to deliver to Landlord notice withdrawing its request to perform the Change Order, requesting revisions to the Change Order to reduce the cost thereof, or waiving Tenant's rights under this sentence. Tenant's failure to provide any such notice within such five (5) business day period shall be deemed to be Tenant's approval of the Change Order and Change Order Estimate. If Tenant shall request revisions to the Change Order within such five (5) business day period, the foregoing procedure shall be repeated until Tenant shall either approve (or be deemed to approve) the Change Order or withdraw its request for the performance of the Change Order work. Tenant shall pay the Change Order Costs for all

approved Change Orders on or before the date that is later of (i) the Expansion Commencement Date and (ii) the date of Landlord's delivery of its invoice for reimbursement setting forth each approved Change Order and associated Change Order Costs (which shall not exceed the amount of each Change Order Estimate plus five percent (5%) of such amounts for Landlord's overhead). If after the Expansion Plans have been finalized pursuant to the procedures set forth hereinabove Tenant requests a Change Order or any further changes to the Expansion Plans and, as a result thereof, Substantial Completion of the Expansion Work is delayed, then for purposes of establishing the Expansion Commencement Date and any other date tied to the date of Substantial Completion of the Expansion Work, Substantial Completion shall be deemed to mean the date when Substantial Completion would have been achieved but for such Tenant Delay.

(ii)Landlord shall use reasonable speed and diligence to Substantially Complete the Expansion Work, at Landlord's sole cost and expense, and have the Expansion Premises ready for occupancy on or before the Expansion Commencement Date of June 1, 2013, set forth in Section 1(f)(ii). If the Expansion Work is not Substantially Complete on that date, such failure to complete shall not in any way affect the obligations of Tenant hereunder except that, to the extent that any of the Expansion Work that has not been Substantially Completed is located in the Expansion Premises, the Expansion Commencement Date shall be postponed one day for each day Substantial Completion is delayed until the Expansion Work located in the Expansion Premises is Substantially Complete, unless the delay is caused by any of the following Tenant Delays: (A) Tenant's failure to approve or disapprove the Expansion Plans as set forth in Section 17(g)(i), (B) Change Orders requested by Tenant after approval of the Expansion Plans, or (C) any other act or omission of Tenant or Tenant's Affiliates of which Landlord provides oral or written notice to Tenant if a Tenant Delay occurs as a result thereof. No liability whatsoever shall arise or accrue against Landlord by reason of its failure to deliver or afford possession of the Expansion Premises, and Tenant hereby releases and discharges Landlord from and of any claims for damage, loss, or injury of every kind whatsoever as if this Lease were never executed.

(iii)Upon Substantial Completion of the Expansion Work, a representative of Landlord and a representative of Tenant together shall inspect the Expansion Work and generate a Punchlist. Landlord shall, within a reasonable time after the Punchlist is prepared and agreed upon by Landlord and Tenant, complete such incomplete work and remedy such defective work as is set forth on the Punchlist. All construction work performed by Landlord shall be deemed approved by Tenant in all respects except for items of said work which are not completed or do not conform to the Expansion Plans and which are included on the Punchlist.

(iv)For purposes of the Expansion Work, the term "***Substantial Completion***" (or any variation thereof) shall mean completion of construction of the Expansion Work in accordance with the Expansion Plans, subject only to Punchlist items established pursuant to Section 17(g)(iii), as established by the delivery by Landlord to Tenant of a Certificate of Substantial Completion for the Expansion Work on Standard AIA Form G-704 certified by Landlord's architect, which Certificate may be delivered separately for the Expansion Work to be performed in the Expansion Premises and the Demised Premises. Notwithstanding the foregoing, if a certificate of occupancy or its equivalent (or temporary certificate of occupancy or its equivalent) is required by the appropriate governmental authority for the Expansion Work performed in either the Demised Premises or the Expansion Premises, then Substantial Completion of the applicable Expansion Work shall not occur until such certificate or its

equivalent is issued by the appropriate governmental authority, unless it is unavailable because of unfinished work to be performed by Tenant. In the event Substantial Completion of the Expansion Work with respect to the Expansion Premises is delayed because of a Tenant Delay, then for the purpose of establishing the Expansion Commencement Date and any other date tied to the date of Substantial Completion of the Expansion Work, Substantial Completion shall be deemed to mean the date when Substantial Completion would have been achieved but for such Tenant Delay."

- Brokerage. Except for IDI Services Group, representing Landlord, and Commercial Advisors, representing Tenant (collectively, the "***Brokers***"), Tenant and Landlord each agree to indemnify and hold the other harmless of and from any and all loss, costs, damages or expenses (including, without limitation, all reasonable attorneys' fees and disbursements) by reason of any claim of or liability to any broker or person other than the Brokers claiming through the indemnifying party and arising out of or in connection with the negotiation, execution and delivery of this First Amendment. The Brokers will be compensated by Landlord pursuant to the terms of a separate agreement between Landlord and the Brokers. Landlord further agrees to indemnify and hold Tenant harmless of and from any and all loss, costs, damages or expenses (including, without limitation, all reasonable attorneys' fees and disbursements) by reason of any claim made by the Brokers against Tenant for Landlord's failure to pay the Brokers compensation pursuant to such separate agreements.

- Ratification. The Lease, as modified hereby, is hereby reaffirmed and ratified and the provisions thereof, as so modified, shall remain in full force and effect.

- Continued Effect. Except as otherwise provided in this First Amendment, all other provisions of the Lease shall remain unmodified and in full force and effect. All terms not defined in this First Amendment shall be as defined pursuant to the terms of the Lease.

- Multiple Counterparts. This First Amendment may be executed in one or more counterparts, each of which shall constitute an original and all of which shall be one and the same agreement.

Si***gnature Page Attached***

EXECUTED as of the dates indicated below to be effective as of the date indicated above.

LANDLORD:

US INDUSTRIAL REIT II,
a Texas real estate investment trust

By: ________________________
Name: ________________________
Title: ________________________
Date: ___________________________

TENANT:

PRIORITY FULFILLMENT SERVICES, INC.,
a Delaware corporation

By:
Name:
Title:

<u>EXHIBIT B-1</u>

Expansion Work

EXHIBIT 31.1

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

I, Michael Willoughby, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15 2013

By: /s/ Michael Willoughby
Chief Executive Officer

EXHIBIT 31.2

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

I, Tom Madden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15 2013

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

EXHIBIT 32.1

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

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

The Quarterly Report on Form 10-Q for the period ended March 31, 2013 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

May 15, 2013	/s/ Michael Willoughby Michael Willoughby Chief Executive Officer
May 15, 2013	/s/ Thomas J. Madden Thomas J. Madden Chief Financial Officer

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

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