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

Form 10-K

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

For the fiscal year ended December 31, 2021
or

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

For the transition period from to
Commission file number 000-28275

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

Delaware	**75-2837058**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
505 Millennium Drive, Allen, Texas	**75013**
(Address of principal executive offices)	**(Zip Code)**

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

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, $0.001 par value	PFSW	Nasdaq Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging Growth	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant as of June 30, 2021 (based on the closing price as reported by Nasdaq) was $121,363,155.

There were 22,452,965 shares of the registrant's Common Stock outstanding as of April 28, 2022.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements may appear throughout this Annual Report on Form 10-K, including without limitation, the “Management’s Discussion and Analysis” section, and include statements that involve expectations, plans or intentions (such as those relating to future business, future results of operations or financial condition, new or planned features or services, or management strategies). You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan,” “potential,” “project,” “seek,” “strive,” “predict,” “continue,” “target,” and “estimate” and other similar expressions. These forward-looking statements involve risks and uncertainties and may include assumptions as to how we may perform in the future. Although we believe the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee these expectations will actually be achieved. In addition, some forward-looking statements are based upon assumptions about future events that may not prove to be accurate. Therefore, our actual results may differ materially from those expressed or implied in our forward-looking statements.

You should understand that the following important factors, in addition to the Risk Factors set forth in Part I, Item 1A or elsewhere in this Annual Report on Form 10-K, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include, among others:

- our ability to timely file our SEC reports, including the resulting risk Nasdaq may delist our common stock if we do not met Nasdaq’s listing standards;
- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our dependency on fees generated by transaction volume and projects and our ability to manage related costs;
- our dependency upon key managers and personnel, retaining highly-skilled personnel and resources and our reliance on subcontracted services and third-party providers;
- our ability to remain competitive;
- our client concentration of our business and existing client mix, their business volumes and the seasonality of their businesses;
- our ability to finalize pending client contracts and adhere to contract terms;
- our ability to realize the anticipated benefits of past or future acquisitions and manage the potential business disruption and diversion of management attention caused acquisitions and divestitures;
- our ability to secure future financing on favorable terms to meet capital needs and growth of our business;
- our ability to maintain effective controls over financial reporting in the future;
- our ability to maintain the security and privacy of our clients' and our own confidential data against the rise in cyber warfare, ransomware attacks and the like;
- our ability to comply with data privacy regulations;
- exposure to credit risk of our clients;
- general global economic conditions and economic conditions in the countries in which we operate;
- foreign currency risks and other risks of operating in foreign countries including changes in foreign laws, regulations and trade policies;
- taxation on the sale of our products and provision of our services; and
- the impact on our operations as a result of acts of God, natural disasters, pandemics and/or endemics, including the ongoing COVID-19 pandemic, political, social and economic instability, terrorist attacks, political or military conflict and other catastrophic events beyond our control.

We do not intend, and undertake no obligation, to update any of our forward-looking statements after the date of this Annual Report on Form 10-K to reflect actual results or future events or circumstances. There may be additional risks we do not currently view as material or that are not presently known or that are beyond our ability to control or predict. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

PART I

Item 1. ***Business***

General

Unless otherwise indicated, all references to "PFSweb," "the Company," "we," "us" and "our" refer to PFSweb, Inc., a Delaware corporation and its subsidiaries; references to "PFS" refers to our wholly-owned subsidiary, Priority Fulfillment Services, Inc. and its subsidiaries and "Supplies Distributors" refers to our subsidiary, Supplies Distributors, Inc. and its subsidiaries.

PFSweb, Inc., was incorporated in 1999 in the state of Delaware and maintains its corporate headquarters in Allen, Texas. All of our services are provided through our direct and indirect wholly-owned subsidiaries as noted above. In December 1999, PFSweb, Inc. consummated an initial public offering of its common stock and is listed for trading on Nasdaq Global Market under the symbol "PFSW."

PFS is a premier eCommerce order fulfillment provider for consumer branded manufacturers, internet retailers, and distributors, bringing together technologies, systems and people to create exceptional post-click customer experiences that drive revenue and maximize the impact of its clients' brands. PFS provides services to support or improve the physical, post-click experience, such as logistics and fulfillment, customer care, and order-to-cash services including distributed order orchestration and payment services. We offer our services on an à la carte basis or as a bundled solution. In addition to services, PFS provides technology enablement products from client owned/operated locations to facilitate multi-node, omnichannel and in-store retail commerce. Our clients turn to us to optimize their customer experiences and enhance their traditional and online business channels.
The services we offer are primarily organized into the following categories:

- Order Fulfillment
- Fulfillment-as-a-Service
- Order to Cash (Order Management as a Service)
- Customer Care

POST-CLICK COMMERCE SOLUTIONS

PFS serves as the "brand behind the brand" for companies seeking to increase order fulfillment and management and customer care efficiencies, drive customer engagement and growth, enter new markets or launch optimized sales channels. As a premier eCommerce order fulfillment provider, we offer scalable and cost-effective solutions for brand manufacturers, online retailers, and distributors across a wide range of industry segments to serve direct-to-consumer (DTC) and business-to-business (B2B) channels. We provide our clients with seamless and transparent solutions to support their business strategies, allowing them to focus on their core competencies. Leveraging our technology, expertise, and proven methodologies, we enable clients to develop and deploy new products and implement new business strategies or address new distribution channels rapidly and efficiently through our optimized solutions. Our clients engage us, both as a consulting partner to assist them in the design of a business solution, as well as a virtual and physical infrastructure partner to provide the mission-critical operations required to build and manage their business solution. Together, we not only help our clients define new ways of doing business, but also provide them the technology, physical infrastructure, and professional resources necessary to quickly implement their commerce objectives. We allow our clients to quickly and dramatically change how they "go-to-market" and service their customers.

Each client has a unique business model and unique strategic objectives that often require highly customized enterprise solutions. We support clients in a wide array of industries, including health, fragrance and beauty products, cosmetics, fashion apparel and accessories, footwear, luxury goods, consumer packaged goods, coins and collectibles, jewelry, housewares, computer and office products, among others. Clients turn to PFS for help in addressing a variety of business needs that include strategic consulting, customer care support, time-definite logistics, vendor managed inventory and integration, supply chain compression, cost model realignments, returns/reverse logistics, transportation management, and international expansion, among others. We also act as a constructive agent of change, providing clients the ability to alter their current distribution model, establish direct relationships with end-customers and reduce the overall time and costs associated with existing distribution channel strategies, while improving customer experience via value-added distribution solutions such as gift-wrapping and product personalization. Our clients are seeking DTC and B2B solutions that will provide them with dynamic supply chain and outsourcing efficiencies, while ultimately delivering a world-class, branded customer service experience.

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

Quickly Capitalize on Market Opportunities. We offer a collection of solutions focused on helping clients quickly assess opportunities that respond to the changing world of technology and assisting clients in harnessing innovation and brand experience through lean start-up methodologies. Our solutions empower clients to rapidly implement their supply chain and commerce strategies and take advantage of opportunities by utilizing our readily available advanced technology and physical infrastructure which facilitates a quick integration and implementation. The solution is designed to allow our clients to deliver consistent, quality service as transaction volumes grow and handle daily and seasonal peak periods. Our international locations allow our clients to expand the global reach of their products.

Elevate the Customer Experience. We enable our clients to provide their customers with a high-touch, positive buying experience, thereby maintaining and promoting brand loyalty. We create omnichannel commerce experiences designed to fit into and fuel a connected digital ecosystem. Our eCommerce solutions communicate seamlessly with client stores and varying applications. Through our use of advanced technology, we help our clients respond directly to customer inquiries by email, voice or data communication and assist them with online ordering and product information. We offer our clients a “world-class” level of service, including high-touch customer care services, detailed Customer Relationship Management (“CRM”) reporting, and exceptional order accuracy. Our technology platform is designed to ensure high levels of reliability and fast response times for our clients’ customers. Because of our technology, our clients benefit from being able to offer the latest in traditional customer communication and auto-response technology to their customers. Using data, we create customer relationship-building insights that drive both strategy and action. Our fulfillment facilities are designed for efficient multi-brand operations with an emphasis on creating branded fulfillment experiences featuring custom packaging, gift-wrapping, extensive personalization options and build-to-order and build-to-stock kitting.

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

Access a Complete Order Fulfillment Platform. We provide our clients with access to a technology platform featuring best-of-breed DTC and B2B order processing technologies together in a single, integrated, Payment Card Industry (“PCI”) certified order to cash offering. Powered by leading enterprise class software solutions, our order to cash platform is integrated into a variety of leading industry eCommerce platforms and supporting technology components and services. Built to accelerate the implementation process, the technology ecosystem allows for flexible integrations with other technology providers and client systems.

PFS provides the operational activities required and expected of the world's leading brands. Our solutions support DTC, B2B, and retail sales channels. We have DTC and B2B experience in customizing solutions to meet the unique nuances of our clients’ internal finance, customer care, supply chain, and omnichannel operations. With approximately 2.3 million square feet of leased distribution space and proven ability to maintain approximately 1,100 contact center employees across two continents, we have the global infrastructure to meet the operational needs of our eCommerce and traditional B2B clients.

The majority of our clients are the merchants of record for the orders we process through our infrastructure on their behalf. For these clients, we do not own the inventory or the resulting accounts receivable but provide commerce solutions and other services for these client-owned assets.

For some of our clients, we are the merchant of record for the orders we process through our infrastructure. Depending on the terms under these arrangements, we record either product revenue or service fee revenue, may own the accounts receivable

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

Order Fulfillment

We design advanced distribution operations that streamline our clients' supply chain process and offer a flexible fulfillment model. We differentiate ourselves through the value-added services we provide and creating branded solutions – more than the brown corrugated box. Our distribution centers are located in the Memphis, Tennessee area, Dallas, Texas, Las Vegas, Nevada, Toronto, Canada, Southampton, United Kingdom, and Liege, Belgium to provide centrally located fulfillment throughout North America and Europe.

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

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

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

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

We offer reverse logistics management services, including issuing return authorizations, return carrier shipping labels, receipt of product, crediting customer accounts and disposition of returned product. We also leverage strategic partnerships to provide our clients with access to distributed returns centers that collect, consolidate, report on and forward returned product to our central facilities allowing us to accelerate credits to our clients' customers, reduce freight costs for our client, improve customer service and reduce complexity and cost in our facilities from handling inbound returns.

Facility Operations and Management. Our facilities management service offering includes distribution facility design and optimization, business process reengineering and ongoing staffing and management. Our expertise in supply chain management, logistics and client-centric fulfillment operations can provide our clients with cost reductions, process improvements and technology-driven efficiencies.

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

Pop-Up Distribution Centers. Leveraging our CloudPick℠ solution, temporary fulfillment centers allow our clients' eCommerce fulfillment networks to flex during peak periods with all the benefits of regional distribution nodes, without the long-term capital costs. We can deploy full pick-pack-ship operations within weeks that run off a simple Wi-Fi network and our proprietary distributed order management technology. Deployed into any real estate space, this solution allows for temporary forward stock allocation to alleviate volume from the primary fulfillment center, shorten delivery times and lower shipping costs.

Fulfillment-as-a-Service. PFS has developed and deployed technology products that facilitate the omnichannel shopping experience. Our cloud-based RetailConnect℠ Store Edition is designed to streamline the pick/pack/ship operation within a retail store. Our cloud-based solution allows retailers the ability to offer ship from store and Buy Online, Pick-up In Store (BOPIS) quickly and accurately, transforming a brick-and-mortar store into an efficient, omnichannel hub which optimizes inventory and improves customer satisfaction.

Order to Cash

Our order to cash service provides our clients with distributed order orchestration and payment processing. Our order to cash service features an Oracle-based, custom, scalable Distributed Order Management ("DOM") technology platform built for DTC and B2B order processing with a variety of fully-integrated payment processing and fraud management platforms and technologies. Our order to cash service provides interfaces that allow for real-time information retrieval, including information on inventory, sales orders, shipments, delivery, purchase orders, warehouse receipts, customer history, accounts receivable and credit lines. These solutions are integrated with our customer contact centers, allowing for the processing of orders through shopping cart, phone, fax, mail, email, live chat and other order receipt methods. As the information backbone for our total supply chain solution, our order to cash service can be used on a stand-alone basis or in conjunction with our other business infrastructure offerings. In addition, for the B2B market, our service offering provides a variety of order receipt methods that facilitate commerce within various stages of the supply chain. Our service provides the ability for both our clients and their customers to track the status of orders at any time. Our services are transparent to our clients' customers and are seamlessly integrated with our clients' internal system platforms and websites. By synchronizing these activities, we can capture and provide critical customer information, including:

- Statistical measurements critical to creating a quality customer experience, containing real-time order status, order exceptions, back order tracking, allocation of product based on timing of online purchase and business rules, the ratio of customer inquiries to purchases, average order sizes and order response time;
- B2B supply chain management information critical to evaluating inventory positioning, for the purpose of improving inventory turns, and assessing product flow-through and end-user demand;
- Reverse logistics information, including customer response and reason for the return or rotation of product and desired customer action; and
- Detailed marketing information about what was sold and to whom it was sold, by location and preference

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

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

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

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

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

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

Customer Care

Our internal contact center operations are focused on providing essential services such as order entry, returns authorization, product inquiry and order tracking. Our unique multi-lingual capabilities are possible through our strategically placed management locations in the United States ("US"), Belgium, United Kingdom ("U.K."), and Canada, as well as partnerships delivering multi-lingual capability in Mexico. We have also deployed technology which allows for full customer care capabilities to be deployed for agents in a work from home ("WFH") capacity, which has greatly increased our access to skilled staff while reducing attrition.

Customer Service Application. Through our web enabled iCA application, our unique technology leverages the client's website by wrapping the Customer Service Application around the existing website. Using iCA, agents provide customer service functions, such as placing orders, checking order status, facilitating returns, initiating upsell and cross sell, managing escalations and gathering "voice of the customer" information to help our clients evolve with their customers' changing needs. iCA is fully integrated into the client's website, our data analytics platform, and our order processing system, allowing full visibility into customer history and customer trends. Through this fully integrated system, we are able to provide a complete customer care solution in a contact center or on a license basis to our clients' owned or outsourced contact centers.

Customer Assistance. An important feature of commerce is the ability for the customer to communicate with a live customer service representative. Our contact center services utilize features that integrate voice, e-mail, standard mail and live chat communications to respond to and handle customer inquiries. Our customer care representatives answer various questions, acting as virtual representatives of our clients' organization, regarding order status, shipping, billing, returns and product information and availability as well as a variety of other questions. We utilize technology that allows us to route each customer contact automatically to the appropriate customer care representative who is individually trained in the clients' business and products.

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

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

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

INDUSTRY INFORMATION AND COMPETITIVE LANDSCAPE

Industry Overview

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

- Manufacturers strive to restructure their supply chains to maximize efficiency and reduce costs in both B2B and DTC markets, and to create a variable-cost supply chain able to support the multiple, unique needs of each of their initiatives, including traditional retail and eCommerce.
- Companies in a variety of industries seek outsourcing as a method to address one or more business functions that are not within their core business competencies, to reduce operating costs or to improve the speed or cost of implementation.
- Retailers, both traditional and eCommerce, partner with providers that offer them the most flexibility both short and long-term. However, many companies today seek to diversify their eCommerce operations across in-house capabilities and outsourced components on an à la carte basis.
- The “seamless customer experience” is a major industry trend that retailers and brand manufacturers are embracing to differentiate and remain relevant to a more sophisticated consumer. As consumers desire a shopping experience that blends sales channels, the integration and flexibility of front and back-end systems and operations becomes more critical to retailers and manufacturers.
- As a result of the COVID-19 pandemic, there has been a significant increase in eCommerce growth. Consumer branded manufacturers and retailers are focused on driving improvements in their online presence through incremental investments in their website presence and infrastructure to support evolving consumer buying patterns and requirements.

Supply Chain Management Trend

As companies maintain focus on improving their businesses and balance sheet financial ratios, significant efforts and investments continue to be made in identifying ways to maximize supply chain efficiency and extend supply chain processes. Working capital financing, vendor managed inventory, supply chain visibility software solutions, distribution channel skipping, direct-to-consumer eCommerce sales initiatives and complex upstream supply chain collaborative technology are products that manufacturers seek to help them achieve greater supply chain efficiency. Many clients were impacted by supply chain issues in 2021 which made our ability to offer omni-channel solutions, which could optimize retail inventory for eCommerce orders, even more important. Additionally, our distribution center expansion into Las Vegas allows our clients to utilize a multi-node distribution strategy by leveraging multiple operations within PFS, which often shortens delivery times for product to our facilities as well as improves delivery times from our fulfillment network to the end consumer.

A key business challenge facing many manufacturers and retailers as they evaluate their supply chain efficiency is determining how the trend toward increased omnichannel business activity will impact their traditional DTC commerce business models. Ship-from-store, pick-up-in-store, return-to-store and other omnichannel capabilities are becoming increasingly important processes to accommodate. We believe manufacturers will look to outsource their non-core competency functions to support this modified business model. We believe companies will continue to strategically plan for the impact that technology advancements will have on their traditional commerce business models and their existing technology and infrastructure capabilities. Additionally, B2B opportunities exist as companies look to leverage the technology and enhanced customer experience that currently exists within eCommerce channels.

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

solutions that utilize XML based protocols and traditional EDI standards to ensure an open systems platform that promote easier technology integration in these collaborative solutions. In addition to these traditional integration and collaboration technology environments, we are observing the emergence of a variety of solutions utilizing blockchain technologies and we will continue to evaluate the appropriate time to include emerging technology solutions into our service offering.

Outsourcing Trend

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

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

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

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

Competition

We compete with eCommerce focused order fulfillment providers such as Radial and GEODIS (formerly OHL), as well as, depending on the client’s retail and/or supply chain strategy, Saddle Creek Logistics, Visible, Capacity Logistics, FedEx Supply Chain, UPS Logistics, Kuehne + Nagel, and other “pure-play” fulfillment or contact center providers.

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

Although many of our competitors offer one or more of our services, we believe our primary competitive advantage is our ability to offer a full array of post-click commerce services, thereby eliminating any need for our clients to coordinate these services from many different providers.

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

- vertical industry expertise;
- omnichannel strategy;
- design and implementation experience;
- operating performance and reliability;
- ease of implementation and integration;
- experience of the people required to successfully and efficiently design and implement solutions;
- experience operating similar solutions dynamically;
- global reach; and
- price.

We believe we can compete favorably with respect to many of these factors. However, the market for our services is competitive and continually evolving, which will require PFS to continue to innovate and invest in its operations to be able to compete successfully against current and future competitors.

COMPANY INFORMATION

Clients and Marketing

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

L'Oréal USA (health & beauty), ON (sporting goods/apparel), Thrive Causemetics (health & beauty), Kendra Scott (jewelry), PANDORA (jewelry), Moleskine (stationery), Proctor & Gamble (consumer packaged goods), Shiseido Americas (health & beauty), The United States Mint (collectible coins), among many others.

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

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

Seasonality

We have historically experienced seasonality due to our client mix and their increased business volumes which are highest in our fourth quarter which coincides with the retail peak season. We cannot predict the volume of sales of our clients or the impact of such seasonality of our clients or the sales they will implement during such peak season nor those of any future client business. We expect this seasonality to continue, or possibly increase in the future, which may cause fluctuations in our business operations and operating results. Increased online buying due to the COVID-19 pandemic restrictions drove substantially increased fulfillment volume starting in the second quarter of 2020 with continued focus on our client's eCommerce business. In

2021, we continued to see pandemic-driven impacts to eCommerce as different geographies dealt with various forms of lockdowns.

Concentration of Clients

During 2021, two clients represented more than 10% of the Company's total revenues. These clients represented $37.6 million, or 14% and $31.6 million, or 11% of total revenues. During 2020, three clients each represented more than 10% of the Company's total revenues. These clients represented $38.9 million or 14.3%, $34.0 million or 12.4%, and $31.7 million or 12.0% of total revenues. As of December 31, 2021, one client exceeded 10% of the Company's total accounts receivable. As of December 31, 2020, two clients each exceeded 10% of the Company's total accounts receivable.

Human Capital Resources

Workforce Composition and Diversity, Equity and Inclusion

Our business is operated by a diverse and global workforce, with employees in the following key geographies as of December 31, 2021:

	Workforce totals
North America:	
United States	1,193
Canada	72
Total	1,265
Europe:	
United Kingdom	106
Belgium	131
Bulgaria	1
Total	238
Asia:	
India	77
Total Employees	1,580

We believe that providing a diverse workplace that promotes mutual respect and inclusion for all employees is critical to our business success and to driving innovation and growth. Since 2018, all US employees were trained on diversity and inclusion. In 2019, this training was expanded to our non-US employees and managers. In 2020, we launched an expanded Diversity & Inclusion effort and hired a firm to help develop a phased approach to increase diversity and ensure inclusion. As part of this process, the Company is engaging its workforce and seeking feedback from various groups within the Company, including, but not limited to, women, African Americans, and LGBTQ employees, to better determine if there are areas within the Company that warrant changes. In 2021, we reviewed the data from the Organizational Culture Index with business leaders. We hosted the first International Women's Day summit and a Global Day of Understanding to allow employees at all levels to speak about Diversity and Inclusion. We continue to work through the phased approach and believe this is an ongoing effort that will drive permanent change in our Company and our practices.

During the year, our gender and racial/ethnic group representation for employees and management was as follows:

Employee Gender Diversity (Global)	Employees	% of Total
Male	621	39 %
Female	863	54 %
Undisclosed	109	7 %
Total	1,593	

Employee Ethnicity Diversity (US)	Employees	% of Total
Non-POC*	274	23 %
POC**	919	77 %
Undisclosed	4	— %
Total	1,197	

***Non-People of Color (Non-POC):** White
**** People of Color (POC):** Asian, Hispanic/Latino, Black.African American, Native American/Alaska Native or Native Hawaiian, Two or more races, and Undisclosed

Employee Gender Diversity in Management (Global)

	Employees	% of Total
Male	155	57 %
Female	112	41 %
Undisclosed	6	2 %
Total	273	

Employee Ethnicity Diversity in Management (US)

	Employees	% of Total
Non-POC*	88	39 %
POC**	140	61 %
Total	228	

***Non-People of Color (Non-POC):** White
**** People of Color (POC):** Asian, Hispanic/Latino, Black.African American, Native American/Alaska Native or Native Hawaiian, Two or more races, and Undisclosed

We are an equal opportunity employer and seek to comply with all applicable federal, state and local laws, including but not limited to the applicable provisions of the Civil Rights Act of 1964. We prohibit discrimination against our employees, applicants, or any protected group or class including in our hiring, workplace practices, promotions, compensation, benefits, and termination practices.

We have not suffered an interruption of business as a result of a labor dispute. We consider our relationship with our employees to be good. In the US, Canada and India, we are not a party to any collective bargaining agreements, and while our European subsidiaries are not a party to a collective-bargaining agreement, certain of them are required to comply with certain rules agreed upon by their employee Works Councils.

Talent Acquisition, Development and Retention.

We are focused on attracting the best employees, recognizing and rewarding their performance. The future success of our business initiatives relies heavily on our employees and in recruiting, hiring and training large numbers of skilled employees and obtaining large numbers of hourly employees and temporary staff during peak periods for distribution and call center operations is critical to our ability to provide high quality services. To attract talented and experienced employees, we utilize multiple online search tools, specialized recruiting firms and temporary resourcing firms, as well as, an employee referral program to ensure a varied outreach approach for candidates.

Compensation, Benefits and Wellness.

We aim to offer marketable and competitive compensation and benefits to our employees relative to our industry and size. Varying by level, our compensation strategy is built around providing a mix of salary or hourly pay, cash based short-term incentives, and equity based long-term incentives to employees. In addition, we offer a comprehensive suite of health and retirement benefits, including medical, dental and prescription drug coverage, as well as paid parental leave, and 401(k) matching contributions. We have also instituted a Wellness Program to foster employee health, wellness, and engagement, which program includes fitness challenges, classes and access to fitness equipment at our Company headquarters. We have attempted to maintain our Wellness Program with online course offerings for the majority of our employees that work from home.

Health and Safety

Our distribution center employees are providing essential services to keep goods flowing to the people who need them. Their protection and safety is important to us, and we are committed to providing a safe and healthy work environment for our employees, temporary employees, contractors and visitors. We expect all employees, temporary employees, contractors and visitors to share in this commitment for the mutual benefit of everyone. With the onset of COVID-19 pandemic in 2020 and the continuing and varied effects of the same, we began using a combination of protective measures and virtual communications to maintain a safe workplace environment including, but not limited to:

- Controlled entry point with mandated disclosure of any COVID or flu-like symptoms;
- Personal protective equipment ("PPE") for all employees is available and mandated for certain location based on applicable government regulations;
- Mobile cleaning stations and access to hand sanitizers available;
- Maintaining social distancing when possible; and
- Heightened cleaning protocols and fogging.

We continue to implement the recommended Center for Disease Control and Prevention (the "CDC")guidelines in our distribution facilities while maintaining a work from home environment for most all other non-essential employees. With the

move to the work from home environment, we have instituted improved data security measures and protocols, including the use of third party tools.

Government Regulation

We are subject to federal, state, local and foreign consumer protection laws and data privacy laws, protecting our customers' personally identifiable information and other non-public information and regulations prohibiting unfair and deceptive trade practices to name a few. Moreover, there is a trend toward regulations requiring companies to provide consumers with greater information regarding, and greater control over, how their personal data is used, and requiring notification when unauthorized access to such data occurs. Furthermore, the growth and demand for online commerce has and may continue to result in more stringent consumer protection laws that impose additional compliance burdens and greater penalties on online companies with online operations.

These laws are increasing in number, enforcement, fines and other penalties. For example, many states and foreign countries currently require us to notify each of our clients or customers who are affected by any data security breach (as such term may be defined by jurisdiction) in which an unauthorized person, such as a computer hacker, could obtain customer information. Nonetheless, we may be subject to data incidents for which, though not required to do so by law, we may disclose to our clients and customers under certain contractual obligations and/or data privacy agreements. In addition, several jurisdictions, including foreign countries, have adopted privacy-related laws that restrict or prohibit unsolicited email promotions, commonly known as "spam," that impose significant monetary and other penalties for violations.

In an effort to comply with these laws, internet service providers may increasingly block legitimate marketing emails. Compliance with these and any other applicable privacy and data security laws and regulations is a rigorous and a time-intensive process, and we may be required to put in place additional mechanisms to ensure compliance with the new data protection rules in the future which could result in substantial compliance costs and could interfere with the conduct of our business.

As we receive, store and process personal information and other customer data in connection with our services, and in some cases we are deemed a controller of data, we are required to comply with numerous federal, state, local and foreign laws regarding privacy and the storing, sharing, access, use, processing, disclosure and protection of personal information, personal data and other client data, the scope of which are changing, subject to differing interpretations, and may be inconsistent among countries or conflict with other rules. Specifically, we are subject to the European Union ("E.U.") General Data Protection Regulation ("GDPR"), and applicable national implementing legislation of the GDPR, and the U.K. General Data Protection Regulation and U.K. Data Protection Act 2018 (collectively, "U.K. GDPR").

The GDPR/U.K. GDPR imposes stringent data protection requirements and, where we are acting as a controller, includes requirements to provide detailed disclosures about how personal data is collected and processed, among many other requirements, along with complying with the principle of accountability and the obligation to demonstrate compliance through policies, procedures and audit. Where we act as a processor and process personal data on behalf of our clients, we are required to execute mandatory data processing clauses with those customers and maintain a record of data processing, among other requirements under the GDPR/U.K. GDPR.

Additionally, we are subject to the California Consumer Privacy Act ("CCPA"), which came into effect in 2020 and increases privacy rights for California consumers and imposes obligations on companies that process their personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for security breaches that may increase the likelihood of, and the risks associated with, security breach litigation. Additionally, in November 2020, California passed the California Privacy Rights Act ("CPRA"), which expands the CCPA significantly, including by expanding consumers' rights with respect to certain personal information and creating a new state agency to oversee implementation and enforcement efforts, potentially resulting in further uncertainty and requiring us to incur additional costs and expenses in an effort to comply. Many of the CPRA's provisions will become effective on January 1, 2023. Further, Virginia enacted the Virginia Consumer Data Protection Act, or the CDPA, another comprehensive state privacy law, which will also be effective January 1, 2023. Please refer to Item 1A. Risk Factors in this Annual Report on Form 10-K, specifically, ***the rise in cyber warfare, ransomware attacks and the like, increases the potential for a breach of our e-commerce security measures, which could adversely affect our business or expose us to significant financial loss or liability and reputational harm.***

Further, with the U.K.'s exit from the E.U. (referred to as "Brexit") and the subsequent Trade and Cooperation Agreement (the "TCA") entered into thereafter which became effective in May 2021 has resulted in continuing instability and uncertainty, adding cost and complexity to our operations and compliance efforts, including staffing and cross border supply chain implications. Brexit and the TCA has and may continue to contribute to volatility of currency exchange rates, including of the euro and British pound, issues with import and export controls, trade barriers, tariffs, and the movement of employees. The U.K. is an important geography for us and we have structured our privacy and data protection compliance program based on the GDPR.

As a result of Brexit, we will be required to implement alternative U.K. compliance measures and comply separately to the U.K. GDPR.

Lastly, we are subject to Payment Card Industry Data Security Standard (“PCI-DSS”), a security standard applicable to companies that collect, store or transmit certain data regarding credit and debit cards, holders and transactions. We rely on vendors to handle PCI DSS matters and to ensure PCI-DSS compliance.

Where to Find More Information

Our website address is www.pfscommerce.com. Information contained on, or accessible from, our website is not incorporated by reference into this annual report and should not be considered part of this annual report or any filing we make with the United States Securities and Exchange Commission, or SEC. We file with, or furnish to, the SEC all our periodic filings and reports, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments if any, to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All of our filings with the SEC are made available, free of charge, through the investor relations section of this website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC or by mailing a written request to Investor Relations at PFSweb, Inc., 505 Millennium Drive, Allen, Texas 75013. Copies of any of our filings also can be obtained without charge from the SEC at www.sec.gov.

Item 1A. *Risk Factors*

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

Risks Related to Our Business and Operations

Our service fee revenue and gross margin are dependent upon our clients’ business and transaction volumes and our costs. A reduction in our clients’ eCommerce business, our inability to grow our business or increase service fee revenue from new or existing clients, or our inability to manage expected costs could result in financial performance shortfalls and negatively impact our operating results.

Our service fee revenue is primarily transaction based and fluctuates with the volume of transactions or level of sales of the products by our clients for whom we provide omnichannel services. If we are unable to retain existing clients or attract new clients, or if we dedicate significant resources to clients whose business does not generate revenues at projected levels or sufficient revenues, or whose products do not generate substantial customer sales, our business and financial condition may be materially adversely affected.

When making a proposal for clients, we rely on our estimates of costs and timing for delivering our services, which may be based on limited data and could be inaccurate. Further, our ability to estimate service fee revenue for future periods is substantially dependent upon our clients’ and our own projections, the accuracy of which has been, and will continue to be, unpredictable. Therefore, our planning for client activity and targeted goals for service fee revenue and gross margin may be materially adversely affected by incomplete, delayed or inaccurate projections. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-price contracts, including delays caused by factors outside of our control, could make these contracts less profitable or unprofitable and may affect the amount of revenue, profit and profit margin reported in any period.

In addition, most of our service agreements with our clients are non-exclusive and we cannot be assured that any of our clients will continue to use our services for any period of time. The loss of a significant amount of service fee revenue due to client terminations (including terminations related to client bankruptcies) or material reductions in the services provided to one or more clients could have a material adverse effect on our ability to cover our costs and thus on our profitability.

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

We regularly hire a large number of part-time and seasonal workers, particularly during the fourth quarter holiday season and to meet temporary increases in client activity volume related to “flash sales” and other short-term marketing programs throughout our geographic locations. Any difficulty we may encounter in hiring such workers could result in significant increases in labor costs, or inability to support our clients’ businesses, which could have a material adverse effect on our business, financial

condition and results of operations. We may also hire more full-time and part-time employees to mitigate the risk of the unavailability of temporary workers, and our failure to maintain an appropriate mix of labor personnel may result in higher costs. Increases in minimum wage requirements and other competition for labor, could also substantially increase our labor costs. Although we seek to preserve the contractual ability to pass through increases in labor costs to our clients, not all of our current contracts provide us with this protection, and we may enter into contracts in the future, which limit or prohibit our ability to pass through increases in labor costs to our clients.

We are dependent on our key officers, managers and highly skilled personnel, and if we are unable to attract and retain key personnel in all our geographic locations, our business and our results of operations may be materially adversely affected.

Due to current general labor shortages, we have had difficulty retaining and hiring highly-skilled, competent and trained personnel, including management and accounting personnel. As a result, we need to attract and retain highly-skilled and technical personnel for whom there is intense competition in all our geographical areas of operation. Increasing wages and competition for skilled personnel worldwide may negatively impact our business and increase our costs. We cannot be certain that we will be able to attract and retain the personnel necessary for the continuing support of and growth of our business. The loss of any of our key personnel or our inability to attract and retain key employees in the future could materially harm and be disruptive to our business.

We face competition from many sources that could adversely affect our business, and growth in our clients' eCommerce business may make it more efficient for the client to perform some of our service offerings themselves.

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

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our services and the underlying network infrastructure. If we are unable to adapt to changing market conditions, client requirements or emerging industry standards, our business could be adversely affected.

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

Our business is materially impacted by our client mix and the seasonality of their business as well as the concentration of our clients including our focus on certain primary vertical industries. With a concentration of our revenue with certain clients and the concentration of clients in certain industries, our business may be more susceptible as a result of a loss of one or customers and/or a single industry specific occurrence or change in law or regulation with respect to our client's business. Further, based upon our current client mix and their current projected business volumes, we anticipate our highest service fee revenue will be recorded in our fourth quarter. We are unable to predict how the seasonality of future clients' business may affect our quarterly revenue and whether the seasonality may change due to modifications to a client's business. As such, we believe results of operations for a quarterly period may not be indicative of the results for any other quarter or for the full year.

Our business is subject to the risk associated with timing of contracts, adherence to contract terms and certain recovery of costs under the contract.

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

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

Additionally, most of our client agreements provide a contract expiration date, but many also include an early termination clause permitting the client to terminate the contract for convenience prior to its stated expiration date or to reduce the scope of services or delay the commencement of services to be provided under the contract. Termination, reduction, or delay of our services under a contract could result from factors unrelated to our work product or the progress of the project, such as factors related to business or financial conditions of the client, changes in client strategies or the domestic or global economy generally. The bankruptcy, early termination, reduction or substantial delay of services of any significant client, or nonrenewal of any significant client contract, or the nonpayment of a material amount of our service fees by a significant client, if not offset by an increase in other revenue or cost reductions, could have a material adverse effect upon our business, results of operations and financial condition.

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

Our business could be adversely affected if our clients are not satisfied with our services or our third party provider services resulting in client attrition.

Our success depends on our ability to handle a large number of transactions for many different clients in various product categories that are effective and profitable. Our success also depends on our ability to satisfy our clients, both with respect to our professional services and operational eCommerce platform to meet our clients' business needs. These services may be performed by our own staff, or by a third party or a combination of the two. If a client is not satisfied with the quality of work performed by us or a third party, then we could incur additional costs to address the situation, the profitability of that work might be impaired, and the client's dissatisfaction with our services could damage our ability to obtain additional work from that client. Under the terms of several of our contracts with our service clients, we remain liable to provide such third party services and may be liable for the actions and omissions of such third party providers. In addition, negative publicity related to our client relationships, regardless of its accuracy, may further damage our business and reputation by affecting our ability to compete for new business with current and prospective clients and otherwise could result in a material adverse effect upon our business and financial condition.

Further, as we experience volume increases in transactions due to increased sales and/or client growth, including from client marketing programs, such as "secret sales", "flash sales" or holiday related promotions, these often result in significant short-term spikes in transaction volumes. When this occurs, additional stress is placed upon our network hardware and software and our ability to efficiently manage our operations and available staffing resources, and our ability to efficiently manage a large number of spikes in transactions could be hampered. If we are not able to maintain an appropriate level of operating performance, we may be in breach of our client contractual obligations, develop a negative reputation, and impair existing and prospective client relationships and our business could be materially adversely affected.

We may experience fluctuations in the utilization of our distribution facilities as a result of shifts in our client concentration, attrition or growth, some of which we may not be able to control, which could adversely impact our operations and financial condition.

Our clients expect us to provide omnichannel services at the appropriate size and scope of projects based on the client's needs, whether such needs are expanding or contracting. We must seek to maintain sufficient capacity in our fulfillment, call center and computer technology systems to support our projected existing and new client business activity, including seasonal volumes. The fixed cost structure of many of these investments limits our flexibility to reduce our costs when excess capacity occurs. A reduction in our clients' business, including from financial distress or related bankruptcies, or our inability to grow our business or increase service fee revenue from new or existing clients could result in an underutilization in our invested assets.

Similarly, salaries and payroll-related expenses are a significant component of our costs. Balancing our workforce levels against the demands for our services is difficult. We generally cannot reduce our labor costs as quickly as negative changes

in revenue may occur. We must maintain our operating efficiency and utilization at an appropriate rate to achieve our desired level of profitability. If we are unable to achieve and maintain our target efficiency and utilization rates, our profitability could be adversely impacted. Further, increases in minimum wage requirements and other competitive increases in labor costs could put upward pressure on our costs and adversely affect our profitability if we are unable to recover these increased costs by increasing the prices for our services.

We are exposed to the credit risk of some of our clients and to credit exposures in weakened markets, which could result in material losses.

A substantial portion of our sales are on an open credit basis. We monitor individual client financial viability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the clients can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts.

In the past, there have been bankruptcies amongst our client base, and certain of our clients' businesses face financial challenges that put them at risk of future bankruptcies. Losses, resulting from client bankruptcies, have impacted our operations and any future bankruptcies could harm our business and have a material adverse effect on our operating results and financial condition. To the degree that the credit markets become difficult such that clients cannot maintain financing, our clients' ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results, and financial condition.

We process, store and use personal information and other confidential data that we must safeguard the security and privacy of in compliance with laws that govern such data, including governmental regulations in the US, E.U., U.K. and Canada and we may be liable for an actual or perceived failure to comply with such laws, regulations and contractual obligations which could result in significant liability.

We are subject to US and foreign laws relating to the collection, use, storage and retention, security and transfer and processing of personally identifiable information. In the provisions of our services to our clients, we may be required to process personally identifiable information in compliance and adherence with numerous federal, state, local and foreign laws regarding privacy and the storing, sharing, access, use, processing, disclosure and protection of personal information, personal data and other customer data. The interpretation and application of data protection laws are in a state of flux, and may vary from country to country or state to state in the US and abroad and may conflict. These laws are increasing in number, enforcement, fines and other penalties. In the event of a security breach, these laws may subject us to incident response, notice and remediation costs, as well as costs associated with any investigations that might arise from federal regulatory agencies and state attorney generals and enforcement agencies. Failure to safeguard data adequately, process data in accordance with such laws or to destroy data securely or otherwise anonymize and de-identify such could subject us to regulatory investigations or enforcement actions under applicable data security, unfair practices, or consumer protection laws. The scope and interpretation of these laws could change and the associated burdens and compliance costs could increase in the future.

A significant portion of our services are provided in the U.K. and the E.U. As such, we are subject to GDPR, and applicable national implementing legislation of the GDPR, and the U.K. GDPR. The GDPR/U.K. GDPR imposes stringent data protection requirements when acting as a controller and a processor where we are required to provide detailed disclosures and/or comply with mandatory regulations and data processing clauses consistent with the requirements under the GDPR/U.K. GDPR. As we are required to comply with both the GDPR and the U.K. GDPR, we could be subject to parallel enforcement actions with respect to breaches of both GDPR and U.K. GDPR which affects both E.U. and U.K. data subjects of our clients. In addition to the foregoing, a breach of the GDPR or U.K. GDPR could result in regulatory investigations, reputational damage, orders to cease or change our processing of personal data, enforcement notices, and/or assessment notices for a compulsory audit. We may also face civil claims including representative actions and other class action type litigation (where individuals have suffered harm), potentially amounting to significant compensation or damages liabilities, as well as associated costs, diversion of internal resources, and reputational harm.

GDPR and U.K. GDPR requires, among other things, that personal information only be transferred outside of the European Economic Area, or the U.K, if certain safeguards are taken to legitimize those data transfers. Recent legal developments in the E.U. have created complexity and uncertainty regarding such transfers. Most recently, the European Commission published new versions of the Standard Contractual Clauses on June 4, 2021, which require implementation by September 27th, 2021, for new transfers, and by December 2022 for all existing transfers, such changes will require us to review and revise any existing Standard Contractual Clauses which could increase our compliance costs and adversely affect our business.

Further, following Brexit, the E.U. continues to allow the transfer of data from the E.U. to the U.K, however, this decision is subject to a limited term under which the E.U. could revise this decision and/or determine not to renew the term of

such decision. If the decision is not renewed after its term, or the E.U. intervenes during the term, data may not be able to flow freely from the E.U. to the U.K., which would compromise our operations and could materially adversely affect our business.

In the United States, we are subject to the CCPA, which became effective in January 2020 and imposes obligations on companies that process personal information for California consumers. Additionally, in November 2020, California passed the CPRA, which expands the CCPA significantly, including by expanding consumers' rights which will become effective on January 1, 2023. We have taken what we believe are appropriate measures to implement CCPA and CPRA in our business activities, including establishing internal protocols and procedures as well as modifying our contracts accordingly. Further, Virginia enacted the CDPA, another comprehensive state privacy law, which will also be effective January 1, 2023. We will likely see the continuing compliance impact of the new legislation and interpretations thereof and the evolving regulatory environment on our business activities with respect to the use and transfer of personal data. As we expand our operations, the CCPA, CPRA, CDPA and evolving consumer protection regulation may significantly increase our compliance costs and potential liability and could have a material adverse effect on our business.

Additionally, we are subject to PCI-DSS, a security standard applicable to companies that collect, store or transmit certain data regarding credit and debit cards, holders and transactions. Despite our compliance efforts, we may become subject to claims that we have violated the PCI-DSS based on past, present, and future business practices. Our actual or perceived failure to comply with the PCI-DSS can subject us to fines, termination of banking relationships, and increased transaction fees. In addition, there is no guarantee that PCI-DSS compliance will prevent illegal or improper use of our payment systems or the theft, loss or misuse of payment card data or transaction information. We depend on a number of third parties in relation to the operation of our business, a number of which process personal data on our behalf or as our sub-processor, including for PCI-DSS purposes. To the extent required by applicable law, we attempt to mitigate the associated risks of using third parties by performing security assessments and detailed due diligence, entering into contractual arrangements to ensure that providers only process personal data according to our instructions or equivalent instructions to the instructions of our customer (as applicable), and that they have sufficient technical and organizational security measures in place. We and our third-party service providers may not have the resources or technical sophistication to anticipate or prevent spam attacks, cyber-attacks and ransomware aimed at personal information and data, specifically identity theft and credit card theft. There is no assurance that these contractual measures and our own privacy and security-related safeguards will protect us from the risks associated with the third-party processing, storage and transmission of such information, including the assessment of fines and penalties under the respective applicable laws and regulations.

We generally seek to comply with industry standards and are subject to the terms of our privacy policies and privacy-related obligations to third parties. We strive to comply with all applicable laws, policies, legal obligations and industry codes of conduct relating to privacy and data protection to the extent possible. Compliance with these and any other applicable privacy and data security laws and regulations is a rigorous and time-intensive process, and we may be required to put in place additional mechanisms ensuring compliance with the new data protection rules. we may face significant fines, penalties and costs that could adversely affect our business, financial condition and results of operations. Any failure or perceived failure by us to comply with applicable privacy and data security laws and regulations, our privacy policies, or our privacy-related obligations to users or other third parties, or any compromise of security that results in the unauthorized release or transfer of personal information or other customer data, may result in governmental enforcement actions, litigation, or others and could cause our clients to lose trust in us, as well as result in significant fines and penalties, all of which would have an adverse effect on our reputation and business.

The rise in cyber warfare, ransomware attacks and the like, increases the potential for a breach of our e-commerce security measures, which could adversely affect our business or expose us to significant financial loss or liability and reputational harm.

A requirement of the continued growth of e-commerce is the secure transmission of confidential information over public networks, especially as cyber-attacks against companies doing business on the internet and individuals are increasingly subjected to identity and credit card theft. In the ordinary course of our business, we collect, store and process sensitive information relating to our business, clients, customers of our clients, suppliers, third party providers and employees on our networks and through cloud-based services that may be hosted by third parties and in data center infrastructure maintained by third parties. The secure maintenance of this information is critical to our operations and business strategy.

Our information systems and those of our suppliers, third party providers, partners and clients are subject to the increasing threat and sophistications of intrusions by a wide range of actors, including computer crimes, industrial, state-sponsored, and/or economic espionage, or financial cyber extortion or fraud, especially with increasing political instability and unrest globally. These threats take many shapes and may be introduced through computer viruses, malicious code, ransomware, phishing and malware/spyware to our computers and networks or to an electronic system operated by a third party for our benefit.

In addition, such tactics may also seek to cause payments between us and our clients or suppliers due to or from us or our clients to be misdirected to fraudulent accounts, which may not be recoverable.

We use various encryption, tokenization and authentication technologies to mitigate cybersecurity risks and effect secure transmission of sensitive information such as customer credit card numbers. We also provide employees with awareness training of cybersecurity threats and routinely utilize information technology security experts to assist us in our evaluations of the effectiveness of the security of our information technology systems. However, because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and often are not recognized or known until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Further, we and our partners, suppliers and third-party service providers may not have the resources or technical sophistication to anticipate or prevent all the varying and changing cyber-attacks which could result in the misappropriate our clients' or our clients' customers' personal information or credit card information by way of example. Such resulting liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims, as well as claims for other misuses or inadvertent disclosure of personal information, including unauthorized marketing purposes or selling of data. Moreover, the tools we and our service providers use with advances in computer capabilities or other developments may still result in a compromise or breach of the measures that we use to protect client transaction data. Compounding the above, we increased the use of remote work environments and virtual platforms in response to COVID-19, further increasing the risk of cyber-attacks or data security breaches.

We may be required to expend significant capital and other resources to protect against such security breaches or to alleviate problems caused by such breaches. Because our activities involve the storage and transmission of personal and proprietary information, such as credit card numbers and addresses, security breaches could damage our reputation, cause us to lose clients, impact our ability to attract new clients and we could be exposed to litigation and possible liability. Our security measures may not prevent security breaches, and failure to prevent security breaches may disrupt our operations. The failure to adequately control fraudulent transactions on either our behalf or our client's behalf could increase our expenses and expose us to reputational damage which could adversely affect our business. Consequently, we cannot provide assurances that a security breach, cyber-attack, data theft or other significant systems or security failures will not occur in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.

Our business is susceptible to risks associated with international operations.

We operate on a global basis with operations outside of the United States, including distribution facilities, call centers, technology centers, administrative offices and/or have sales personnel in Belgium, Canada, India and the U.K., and we are currently looking to expand our existing international operations. We may face competition from companies that may have more experience with operations in these countries or with international operations generally. We may also face difficulties integrating new facilities into our existing operations, as well as staffing and integrating employees that we hire in different countries into our existing corporate culture. In addition to the uncertainties from our foreign operations and potential expansion of our international presence, there are risks inherent in doing business internationally that we have not generally faced in our US operations, including:

- lack of familiarity with, and resulting risk of breach of, and/or unanticipated additional cost of compliance with, foreign laws and regulations, including those governing privacy, data security, data transfer, employment, taxes, tariffs, trade restrictions, transfer pricing and other matters;
- political, social and economic instability abroad, terrorist attacks, political or military conflict and security concerns;
- changes in foreign laws, regulations and trade policies, including local tax and customs duty laws or changes in the enforcement, application or interpretation of such laws which may limit our ability to enforce our legal rights and remedies and repatriation of funds;
- potential for violations of anti-corruption laws and regulations, such as those related to bribery and fraud;
- fluctuations in currency exchange rates;
- difficulties and expenses associated with localizing our services and operations to local markets, including language and cultural differences;
- difficulties in staffing and managing international operations, including complex and costly hiring, disciplinary and termination requirements;

- the impact upon our clients, international firms and global economies arising from Brexit and and the continuing surrounding uncertainty and instability of the Trade and Cooperation Agreement (TCA) effective as of May 2021 between the U.K. and E.U., and the continuing political, economic and commercial impact on goods and services and travel, including related labor shortages and supply chain delays which could result in increased or decreased sales or revenues or an increase in costs of operations due to continuing uncertainty with import/export and immigration policies or other factors;
- the complexities of foreign value-added taxes and restrictions on the repatriation of earnings;
- reduced or varied protection for intellectual property rights in some countries; and
- increased accounting and reporting burdens and complexities.

Additionally, the U.K. is one of our larger markets in Europe. We currently ship products for U.K. clients from our continental Europe location, as well as our facility in Southampton, U.K. As a result of the U.K.'s departure from the E.U., we anticipate greater restrictions on imports and exports between the U.K. and the E.U. and increased regulatory complexity. The uncertainty regarding the TCA and the application and interpretation of such, including with respect to the UK GDPR, may adversely affect our international operations by, among other things, increasing our costs and reducing the volume of our client activities.

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

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

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

We or our clients may be a party to litigation involving intellectual property rights used in the provision of services we render. If third parties claim we or our clients are infringing their intellectual property rights under the indemnification obligations within our contracts with our clients and business partners, we could incur significant litigation costs and be required to pay damages, which may have a material adverse effect upon our business, results of operations and financial condition.

We or our clients may be subject to intellectual property legal proceedings and claims in the ordinary course of business. We cannot predict whether third parties will assert claims of infringement in the future. If we or our clients are found to infringe, we may be required to pay monetary damages, which could include treble damages and attorneys' fees for any infringement that is found to be willful, and either be enjoined or required to pay ongoing royalties with respect to any technologies found to infringe. Further, as a result of infringement claims either against us or our clients, we may be required, or deem it advisable, to develop non-infringing technology, which could be costly and time consuming, or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable, or at all.

Under our indemnification provisions in the contracts that we enter into with our clients and business partners, we are generally required to defend against claims arising out of our infringement of third-party intellectual property rights, breach of contractual obligations and/or unlawful or otherwise culpable conduct, including breach of data security. The indemnity obligations generally cover damages, costs and attorneys' fees arising out of such claims. In many instances, our indemnification obligations to our clients include the actions or omissions of our third-party service providers. Although we seek to limit our total liability under such provisions to either a portion of the value of the contract or a specified, agreed-upon amount, in some cases

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

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

We collect sales or other similar taxes for shipments of our and our clients' goods in certain states and jurisdictions. One or more local, state or foreign jurisdictions may seek to impose sales tax collection obligations on us and other out-of-state companies, including our clients that engage in online commerce, depending upon the nexus we or our clients may have with that jurisdiction and the product or services being performed. As a result of the US Supreme Court's 2018 decision in South Dakota v. Wayfair, many states have enacted, and others may choose to enact in the future, new legislation and increase enforcement efforts of existing legislation requiring online retailers to collect and remit sales tax. If unexpected sales tax obligations are successfully imposed upon us or our clients by a state or other jurisdiction, we or our clients could be exposed to substantial tax liabilities for past sales and fines and penalties for failure to collect sales taxes and we or our clients could suffer decreased sales in that state or jurisdiction as the effective cost of purchasing goods from or through us increases for those residing in that state or jurisdiction. This imposition of sales tax may also be enforced on companies providing software as a service (SaaS), information services, data processing services, and maintenance, to name a few. As we provide such services, we may become subject to sales tax in each state where we provide services.

If there is increased legislative or enforcement action, eCommerce in general could decline as increased taxation of online sales could result in online shopping losing some of its current advantage over traditional retail models, which could diminish its appeal to consumers. A decrease in our clients' eCommerce sales could impact our revenue. In addition, the cost of implementing new and expanded sales tax impositions by multiple taxing authorities may adversely impact our and our clients' profitability.

Determinations under government audits could negatively affect our business.

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

Risks related to our Financial Position and Capital Needs

Our future capital needs and growth of our business may depend on access to and the ability to secure financing on favorable terms.

Our business and future growth could depend on our ability to access financing, whether through bank, vendor and commercial lines of credit or raising such through debt or equity securities or a combination of the foregoing. During the year ended December 31, 2021, in conjunction with the sale of our LiveArea business unit in August 2021, we generated approximately $250.0 million in gross proceeds, of which approximately $62.5 million was used to pay off and extinguish the Company's Credit Agreement with Regions Bank. Our access to any new financing depends upon, among other things, on our operating performance, our financial condition and prospects and the condition of the capital markets at the time we seek financing, including the availability of bank loans and commercial credit in general. Therefore, we cannot guarantee that financing will be available or that we will be able to timely secure financing on favorable terms or at all. Our inability to access new financing could have a material adverse effect on our business and ability to fund future growth.

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

To reach our business growth objectives, we currently expect to increase our operating, sales and marketing expenses, as well as capital expenditures. To offset these expenses, we will need to generate additional profitable business. If our revenue declines or grows slower than either we anticipate or our clients' projections indicate, or if our operating, sales and marketing

expenses exceed our expectations or cannot be reduced to an appropriate level, we may not generate sufficient revenue to be profitable or be able to sustain or increase profitability on a quarterly or annual basis in the future. Additionally, if our revenue declines or grows slower than either we anticipate or our clients' projections indicate, we may incur unnecessary or redundant costs and our operating results could be adversely affected.

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

Goodwill represented approximately 7% of our total assets as of December 31, 2021. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. We are required to test goodwill for impairment annually and when factors or indicators become apparent that could reduce the fair value of any of our reporting units below its book value. Such factors requiring an interim test for impairment include financial performance indicators, such as negative or declining cash flows or a decline in actual or planned revenue or earnings, and a sustained decrease in share price. A significant downward revision in the fair value of one or more of our business units that causes the carrying value to exceed the fair value could cause goodwill to be considered impaired and could result in a non-cash impairment charge in our consolidated statement of operations.

If our estimates relating to our critical accounting policies prove to be incorrect, our operating results could be adversely affected.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, allowance for uncollectible accounts receivable, accounting for property, plant and equipment and definite-lived assets, stock-based compensation, income taxes and other contingencies. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the price of our common stock.

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

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

Risks Related to Our Stock

We have recently had to delay the flings of certain of our SEC reports as result of the complexity of the closing process associated with the sale of our LiveArea business unit and the related required financial reporting and accounting segmentation of previously commingled business entities, and we expect our Form 10-Q for the period ending March 31, 2022, due on May 10, 2022, will be delayed, which will mean that we will not have met the Nasdaq Global Market continued listing standards, and Nasdaq may delist our common stock which could have a material adverse effect on our company, the price of our common stock and your ability to sell our common stock.

The continued listing of our common stock on the Nasdaq Global Market is subject to our compliance with Nasdaq listing standards. As previously disclosed and as a result of the delayed filing of this Annual Report on Form 10-K, we expect our Form 10-Q for the period ending March 31, 2022, due on May 10, 2022, will be delayed. A delisting from Nasdaq could adversely affect our relationships with our business partners, vendors, clients and potential clients and our ability to attract and retain employees by means of equity compensation. If our common stock ultimately were to be delisted for any reason, trading of our common stock thereafter would be conducted on the over-the-counter market, or in the so-called "pink sheets." As a consequence, our stockholders would likely find it more difficult to dispose of, or to obtain accurate quotations as to the prices of, our common stock. A delisting could further adversely impact us by (i) reducing the liquidity and market price of our common stock; (ii) reducing the number of investors willing to hold or acquire our common stock, which could adversely impact our ability to raise equity financing; and (iii) limiting our ability to use a registration statement to offer and sell freely tradable securities, thereby preventing us from accessing the public capital markets.

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

As of December 31, 2021, our top three shareholders (including transcosmos, Inc., our largest shareholder) own or control approximately 36% of the voting power of our common stock. The interests of these shareholders may differ from our other shareholders in material respects. This concentration of voting power of our common stock may make it difficult for our other shareholders to approve or defeat matters that may be submitted for action by our shareholders, including the election of directors and amendments to our Certificate of Incorporation or Bylaws. This also may have the effect of deterring, delaying, or preventing a change in control, even when such a change in control could benefit our other shareholders. These shareholders may have the power to exert significant influence over our affairs in ways that may be adverse to the interests of our other shareholders.

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

The trading price of our common stock may be subject to wide fluctuations in response to quarter-to-quarter fluctuations in operating results, announcements of material adverse events, general conditions in our industry or the public marketplace and other events or factors, including the thin trading of our common stock. In addition, stock markets have experienced extreme price and trading volume volatility in recent years. This volatility has had a substantial effect on the market prices of securities of many technology-related companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock. Further, our market price may be impacted by our inability to maintain or comply with the Nasdaq Stock Market LLC (“Nasdaq”) listing requirements, which could include reduction in our market price or delisting of our stock.

In addition, if our operating results differ from our announced guidance or the expectations of equity research analysts or investors, the price of our common stock could decrease significantly.

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

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

We incur significant costs as a result of operating as a public company.

As a public company, we bear significant legal, accounting and compliance costs related to our obligations under the applicable laws, including securities laws requiring the preparation of and distribution of periodic public reports. Our management and other skilled and technical personnel devote a substantial amount of time and incur significant expense in connection with accounting and compliance initiatives.

In addition, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the related rules and regulations implemented by the SEC and Nasdaq increases our legal and financial compliance costs, while also requiring a substantial amount of time of our management and technical personnel, which may divert management’s time and attention from our other business activities.

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

The current and future issuance and/or vesting of shares of our common stock under our outstanding and future stock options, stock awards, performance shares and deferred stock units, sales of substantial amounts of common stock in the public market following the issuance and/or vesting of such shares, and/or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

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

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

General Risks

We have identified a material weakness in our internal control over financial reporting which, if not timely remediated, may adversely affect the accuracy and reliability of our financial statements, and our reputation, business and the price of our common stock, as well as lead to a loss of investor confidence in us.

We are required to maintain internal control over financial reporting and disclosure controls and procedures in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with GAAP. We currently rely on a manual process in some areas which increases our exposure to human error or intervention in reporting our financial results.

Our internal controls over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. As described in Part II, Item 9A, "Controls and Procedures," of our Annual Report on Form 10-K as of December 31, 2020, we determined that we had material weaknesses in our revenue process and in "Item 4, Controls and Procedures" of our Quarterly Report on Form 10-Q for June 30, 2021, we further concluded that our internal controls over financial reporting and our disclosure controls and procedures were not effective as of June 30, 2021 as a result of deficiencies in (1) accounting for and reporting on unusual transactions (including the sale of our LiveArea business unit), (2) our income tax controls and income tax provision process and (3) our information technology general controls ("ITGCs") related to user access and segregation of duties. For a discussion of these material weaknesses, please see "Part II—Item 9A. Controls and Procedures," of our Form 10-K for December 31, 2020, filed on March 31, 2021, "Item 4. Controls and Procedures" of our Quarterly Report on Form 10-Q for June 30, 2021, filed on February 7, 2022, "Item 4. Controls and Procedures" of our Quarterly Report on Form 10-Q for September 30, 2021, filed on March 10, 2022, and in "Part II—Item 9A. Controls and Procedures," of this Annual Report on Form 10-K.

The material weaknesses identified did not result in any material adjustments or restatements of our audited and unaudited consolidated financial statements or disclosures for any prior period previously reported by the Company. Until we fully remediate these weaknesses, it may be more difficult for us to report results accurately and on time and we may rely significantly on manual procedures to assist us with meeting the objectives otherwise fulfilled by an effective control environment and need to engage third-party advisory accounting firms to assist with financial report around our income taxes. The implementation of new procedures and internal controls or modifying our existing processes and controls may require significant time to complete and may require the hiring of additional staff and advisory firms which could be costly and distract management from other activities. While we are working to address our internal control over financial reporting, we cannot be certain that our efforts will be successful or that we will be able to maintain adequate controls over our financial processes and reporting in the future. Any difficulties or delays in implementing these controls could impact our ability to timely report our financial results and ability to provide our investors with information in a timely manner. We expect to incur additional audit fees related to incremental procedures performed and we may see a decline in our stock price due to reduced investor confidence.

Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur undetected, and it is possible that additional significant deficiencies or material weaknesses in our internal control over financial reporting may be identified in the future. Any failure of our internal controls could result in material misstatements in our consolidated financial statements, significant deficiencies, material weaknesses, costs, failure to timely meet our periodic reporting obligations, incremental audit fees and further erosion of investor confidence. It would also adversely affect the results of periodic management evaluations and could have a material adverse effect on our business, financial condition, results of operations or cash flow.

We have made, and may make in the future, strategic acquisitions and divestitures that may involve significant risks and uncertainties. We may not realize the anticipated benefits of past or future acquisitions and integration of these acquisitions may disrupt our business and divert management attention. Likewise, any future divestitures may be unsuccessful and negatively impact our business.

From time to time, we may seek opportunities to maximize efficiency and value through various transactions including the sale of the Company, assets or businesses, or the pursuit of acquisitions of complementary assets or businesses. These transactions are subject to inherent risks and could:

- cause us to incur significant expenses, increase our operating costs, or potentially harm our business;
- divert management's attention away from other operational matters;
- result in unanticipated costs, assumption of liabilities or exposure to unforeseen liabilities of acquired businesses;
- result in difficulties in integrating the operations, assets and employees of the acquired business;
- affect the market value of our common stock or relationships with third parties upon the announcement or consummation of a proposed transaction;
- reduce cash balances and/or increases our debt obligations to finance activities associated with a transaction, including future payments under earn-outs and other contingent payments, which reduce the availability of cash flow for general corporate or other purposes or impact our financial results;
- result in difficulties in maintaining an effective internal control environment over an acquired business;
- increase risks of entering markets in which we have limited prior experience;
- decrease earnings, revenues or cash flow resulting from dispositions; and
- increase our expenses and working capital requirements.

The process of integrating an acquired business may involve unforeseen costs and delays or other operational, technical and financial difficulties that may require a disproportionate amount of management attention and financial and other resources. Our failure to achieve consolidation savings, to incorporate the acquired businesses and assets into our existing operations successfully or to minimize any unforeseen operational difficulties could have a material adverse effect on our financial condition and results of operations.

Likewise, divestitures of assets or businesses involves a number of risks, including the diversion of management's attention, significant costs and expenses, goodwill and other intangible asset impairment charges, the loss of customer relationships and cash flow, adverse impact on any remaining business and our stock price, and disruption of operations in the affected business. Failure to timely complete or consummate a divestiture may negatively affect valuation of the affected business or result in incremental costs and restructuring charges. In the event an unsuccessful acquisition or divestiture, our competitive position, revenues, results of operations and financial condition could be adversely affected.

Our business, operations and profitability could be adversely affected as the result of acts of God, natural disasters, pandemics, and/or endemics, political unrest and conflict and other catastrophic events beyond our control, in particular if one or more of our distribution facilities were interrupted or shut down.

Our operations are dependent upon our ability to protect our distribution facilities, client service centers, computer and telecommunications equipment and software systems against interruption, damage and failures. Our business operations as a whole are subject to serious disruptions, interruption and possible cessation of services by acts of God, natural disasters, fire, tornado, flood, power shortages, political unrest, conflict or war, terrorism, strikes, pandemics and endemics (including the ongoing COVID-19 pandemic), equipment malfunctions, system failures and other events beyond our control. These risks beyond our control could result in macroeconomic changes affecting not only us but also our clients and their operations, especially due to changing and divergent views and rising political tensions and conflicts, which may result in adverse and volatile market conditions that may cause a decline in our revenue and increase our costs of operations and negatively impact our business, results of operations and financial condition as a whole. Additionally, such risks could also adversely affect our relationship with our clients and we may lose these clients and our ability to attract new clients may be adversely affected.

Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible to support our operations or substantially disrupt our ability for us to deliver our services to our clients, which may be due to (i) the inability of personnel to come to work to perform services, (ii) personnel being incapacitated to work, (iii) third party vendors and suppliers inability to provide materials and/or services required for us to perform our services and/or (iv) a shutdown from a government mandate or local or national threat, which could have a material adverse effect on our business, results of operations and financial condition. In addition, we could incur significantly higher costs during the time it takes for us to reopen or replace any one or more of our facilities, personnel, vendors and/ supplier services which may or may not be reimbursed by insurance.

The global coronavirus pandemic and any new strains of the virus could harm our business, results of operations, and financial condition.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 pandemic has had and continues to cause general business disruption worldwide.

Across our business, we have implemented and continue several key measures to prioritize our employees' health and safety in response to the pandemic. We majority of our contact center workforce remains in a work-from-home model, and in our distribution centers continue to implement and adhere to CDC and global health regulations and guidelines and recommended practices, including controlled entry points, providing personal protective equipment for our teams, and mobile cleaning stations. We also have maintained enhanced sanitation criteria for daily and nightly cleaning and social distancing practices.

While the COVID-19 pandemic has not had a material adverse impact on our operations to date, it is difficult to predict the extent of the potential economic impact, particularly in light of the continuing effects of COVID-19. The continuing economic impact may cause disruptions and severely impact our business or that of our clients as we continue to move through the fiscal year, including, but not limited to:

- adversely affecting new client wins and the anticipated launch dates of new projects;
- reduced availability and productivity of our employees due to illness, quarantines, absenteeism, government actions, travel restrictions or other restrictions in connection with the pandemic;
- disruption to our or our client's supply chain and the procurement of products and ability to fulfill orders due to disruptions in our distribution centers;
- increased operational risks as a result of remote work arrangements, including the potential effects on internal controls, as well as cybersecurity risks and increased vulnerability to security breaches, information technology disruptions and other similar events;
- increased costs, including increased labor costs, procurement of equipment to move personnel into a work-from-home model, personal protective equipment and increased and enhanced cleaning services; and
- continued volatility in market prices for our securities.

To the extent the duration of any of these conditions extends for a prolonged period of time, any adverse impact may be more severe. Such matters could impact future revenues and the Company's asset values, including goodwill and intangible assets. We expect to face difficulty predicting our internal financial forecasts as a result of the various continuing unknown factors resulting from the pandemic, including government actions or mandates, restrictions on or changes to clients' operations and business decisions and our supplier and vendor's ability to continue operations and/or provide timely services and goods.

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

Although we attempt to limit our liability for damages arising from negligent acts, errors or omissions through contractual provisions, the limitations of liability included in our contracts may not fully protect us from liability or damages and may not be enforceable in all instances. In addition, not all of our contracts may limit our exposure for certain liabilities, such as data security claims or claims of third parties for which we may be required to indemnify our clients. Although we have general liability and errors and omissions insurance coverage, this coverage may not continue to be available on terms reasonable to us or in sufficient amounts to cover one or more large claims, and our insurers may disclaim coverage as to any future claim. The successful assertion of one or more large claims against us that are excluded from our insurance coverage or that exceed our

available insurance coverage, or changes in our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our headquarters are located in Allen, Texas, a Dallas suburb. In the US, we operate a distribution facility in Memphis, Tennessee, with space of more than 442,000 square feet. We also operate two additional distribution facilities totaling an aggregate of approximately 650,000 square feet in Southaven, Mississippi. These facilities are located approximately ten miles from the Memphis International Airport. We operate a distribution center in the Dallas area, with aggregate space of more than 115,000 square feet. During 2021 we opened a distribution center near Las Vegas, Nevada with space of 177,000 square feet and we plan to open a second facility in that same area in 2022 with space of 170,000 square feet.

Internationally, we have distribution operations in Ontario, Canada, with approximately 132,000 square feet, distribution operations in Southampton, U.K. with approximately 106,000 square feet and distribution operations in Liege, Belgium, with approximately 108,000 square feet.

We also lease an office facility in Bangalore, India. This facility provides primarily technology development, operations and administrative support.

We have customer service centers primarily in Dallas, Texas, Southampton, U.K., and Ontario, Canada, that have transitioned to remote work locations due to the COVID-19 pandemic. Our call center technology permits the automatic routing of calls to available customer service representatives in several of our call centers.

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

We believe that our facilities are suitable for their purpose, adequate to support their businesses, and are in good operating condition.

Item 3. ***Legal Proceedings***

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

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

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

For information regarding the securities authorized for issuance under our equity compensation plans, refer to “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” included in Part III, Item 12 of this Annual Report on Form 10-K.

Common Stock

Our common stock is listed, and currently trades, on the Nasdaq Capital Market under the symbol “PFSW.”

As of April 28, 2022, there were 83 record holders of the common stock.

Dividend Policy

We have never declared or paid cash dividends on our common stock. The payment of any future cash dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, operations, capital requirements, the general financial condition of the Company and general business conditions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources.”

Item 6. [Reserved]

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

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

- Key events during 2021;
- Our results of operations for 2021, as well as certain projections for the future;
- Our liquidity and capital resources;
- The impact of recently issued accounting standards on our financial statements; and
- Our critical accounting policies and estimates.

Key Events

On July 2, 2021, the Company entered into a definitive agreement to sell our LiveArea operating segment for approximately $250.0 million in cash, subject to certain adjustments and customary closing conditions including receipt of regulatory approvals (the "LiveArea Transaction"). The LiveArea Transaction closed on August 25, 2021 (the "LiveArea Transaction Date"). As of June 30, 2021, the criteria for reporting LiveArea as a discontinued operation were met and, as such, all periods presented in this Annual Report on Form 10-K have been recast to present LiveArea as a discontinued operation. Unless otherwise specified, the financial information and discussion in this Annual Report on Form 10-K are based on our continuing operations (i.e., PFS Operations) and exclude any results of our discontinued operations (i.e., LiveArea).

The LiveArea Transaction generated gross proceeds of approximately $250.0 million in cash, resulting in a pre-tax gain of $200.8 million. The Company incurred approximately $15 million in cash-based transaction related costs during 2021 and used proceeds of approximately $35 million to make estimated income tax payments related to the LiveArea Transaction, of which approximately $30 million was paid during the December 2021 quarter.

In completing the discontinued operations presentation, certain LiveArea revenues, costs of fees and gross profit related to client contracts that were not fully transferred to contracts directly operating under the LiveArea operating entities as of

the August 2021 transaction date were maintained by PFSweb as part of the continuing operations presentation. As of the LiveArea Transaction Date, future activities of certain contracts where we have subcontracted services to LiveArea are expected to be recorded as pass-through revenue and pass-through costs, for as long as such contracts continue to be maintained directly through PFSweb. Additionally, certain costs previously reported as LiveArea selling, general and administrative costs in prior segment reporting have been reallocated to continuing operations costs, if such rights and obligations were not transferred as part of the LiveArea Transaction, and certain costs previously reported as unallocated corporate expenses have been reported as discontinued operations if such costs were related to rights and obligations that were transferred as part of the LiveArea Transaction. As such, the historical continuing operations presentation included herein reflects the historical PFS Operations segment and certain components of the LiveArea business which will not be reflected in a similar manner going forward.

Overview

PFS is a premier eCommerce order fulfillment provider for consumer branded manufacturers, internet retailers, and distributors, bringing together technologies, systems and people to create exceptional post-click customer experiences that drive revenue and maximize the impact of its clients' brands. PFS provides services to support or improve the physical, post-click experience, such as logistics and fulfillment, customer care, and order-to-cash services including distributed order orchestration and payment services. We offer our services on an à la carte basis or as a bundled solution. In addition to services, PFS provides technology enablement products from client owned/operated locations to facilitate multi-node, omnichannel and in-store retail commerce. Our clients turn to us to optimize their customer experiences and enhance their traditional and online business channels.

Service Fee Model. We refer to our standard seller services financial model as the Service Fee model. In this model, our clients own the inventory, are the merchants of record, and engage us to provide various infrastructure, technology and digital agency services in support of their business operations. We offer our services as an end-to-end solution, which enables our clients to outsource their complete eCommerce needs to a single source and focus on their core competencies, though clients are also able to select individual or groupings of our various service offerings on an à la carte basis.

We currently provide services to clients that operate in a range of vertical markets across DTC and B2B. These industries include health, fragrance and beauty products, cosmetics, fashion apparel and accessories, footwear, luxury goods, consumer packaged goods, coins and collectibles, jewelry, housewares, computer and office products, among others. In the Service Fee model, we typically charge for our services on a time and material basis, a cost-plus basis, a percent of shipped revenue basis, project or retainer basis for our professional services or a per transaction basis, such as a per labor hour basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including, but not limited to, our labor costs, the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, order volume, geography served and the length of contract.

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 shipping and handling costs, telecommunication charges and travel and are included in pass-through revenue.

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

Retail Model. We also provide a Retail model which allows us to purchase inventory from the client. We place the initial and replenishment purchase orders with the client and take ownership of the product either upon shipment to or delivery to our facility. In this model, depending on the terms of our client arrangements, we may own the inventory and the accounts receivable arising from our product sales. Under the Retail model, depending upon the product category and sales characteristics, we may require the client to provide product price protection as well as product purchase payment terms, right of return, and obsolescence protection appropriate to the product sales profile. Depending on the terms of our client arrangements in the Retail model, we record in our consolidated statement of operations either: 1) product revenue as a component of product revenue, or 2) product revenue net of cost of product revenue as a component of service fee revenue. In general, we seek to structure client

relationships in our Retail model under the net revenue approach to more closely align with our service fee revenue financial presentation and mitigate inventory ownership risk, although we have one client still operating under the gross revenue approach. Freight costs billed to customers are reflected as components of product revenue. This business model generally requires significant working capital, for which we have credit available either through credit terms provided by our clients or under senior credit facilities.

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

Pass-through revenue - Revenues earned related to freight distribution services provided by the Company and are fully offset by the cost of pass-through revenues as described below.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our company is driven by two main elements: new client relationships and organic growth from existing clients. We primarily focus our sales efforts on larger contracts with brand-name companies within four primary target markets, health and beauty, home goods and collectibles, fashion, and consumer packaged goods. We focus our sales efforts on both new clients and also on existing clients where we believe opportunity exists to expand a client relationship to include additional services and/or services across multiple geographies. We continue to monitor and control our costs to focus on profitability. While we are targeting our new service fee contracts to yield incremental gross profit, we also expect to incur incremental investments in technology development, operational and support management and sales and marketing expenses to help generate growth.

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

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

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

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

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

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

COVID-19 Pandemic

We continue to monitor the impact of the COVID-19 pandemic (and any variants thereof) on all aspects of our business. While the COVID-19 pandemic has not had a material adverse impact on our results of operations to date, the future impacts of the pandemic and any continuing and/or additional future economic impacts are still uncertain, especially with as the pandemic continues. We have experienced labor rate increases in certain of our markets for fulfillment activities and labor shortages in all markets. We believe this will continue and that this could impact our overall fulfillment related costs and staffing. In the interim, we are leveraging our multi-node network and distributing work to our centers with more available labor and/or lower costs, implementing certain productivity enhancements, working together with our clients to reduce costs, and offsetting the cost increases with price increases where necessary.

We have taken a number of precautionary measures designed to help minimize the risk of the spread of the virus to our employees and adjusted our operations wherever necessary to help ensure a safe environment for our staff across business functions. As a result of the impact of COVID-19, many businesses continue to experience short-term or long-term liquidity issues. Based on our current expectations, we believe we have the appropriate financial structure in place to support our own business operations through the pandemic. However, we do expect potential risk from the viability of clients and their ability to make payments on time. We have and will continue to closely monitor our clients' financial results, payment patterns and business updates in an effort to minimize any potential credit risk impact.

While many of the related restrictions have been lifted, we have also seen a resurgence of the virus (including new variants) in many geographic regions, which could have a negative impact on our business and adversely affect the Company's results of operations, cash flows and financial position as well as that of our clients.

We incurred additional costs related to the enhanced cleaning regimen implemented in our facilities and purchases of personal protective equipment ("PPE") for employees. However, for the year ended December 31, 2021 and 2020, the increased costs related to the COVID-19 pandemic, excluding hourly wage rate related labor cost increases, were not material. We will continue to monitor these for potential impacts to future cash flow.

While the COVID-19 pandemic has not had a material adverse impact on our operations to date, the extent and duration of future impacts of the pandemic (including any variants of COVID-19) and any resulting economic impact on our business are largely unknown and difficult to predict.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted and signed into law. The Company has made use of the allowance granted under section 2302 of the CARES Act, which permits employers to forgo timely payment of the employer portions of Social Security and RRTA taxes that would otherwise be due from March 27 through December 31, 2020, without penalty or interest charges. We have elected this option and it has resulted in deferred payments totaling $3.7 million in calendar year 2020, of which half was due and paid in December 2021 with the remainder to be paid in December 2022. Similarly, the UK and Belgium governments had granted businesses the option to defer the payment of certain value-added tax ("VAT") amounts. We elected to take advantage of the options available to us but the effects were immaterial and all amounts were fully paid as of December 31, 2021.

Operating Results

The following table discloses certain financial information for the periods presented, expressed in terms of dollars, dollar change, percentage change and as a percentage of total revenues (in thousands, except percentages):

			Change		% of Total Revenues	
	2021	2020	$	%	2021	2020
Revenues:						
Service fee revenue	$ 195,516	$ 188,016	$ 7,500	4.0 %	70.5 %	68.9 %
Product revenue, net	17,612	22,865	(5,253)	(23.0)%	6.4 %	8.4 %
Pass-through revenue	64,174	61,979	2,195	3.5 %	23.1 %	22.7 %
Total revenues	277,302	272,860	4,442	1.6 %	100.0 %	100.0 %
Cost of Revenues:						
Cost of service fee revenue	146,311	138,285	8,026	5.8 %	74.8 % (1)	73.5 %
Cost of product revenue	16,580	21,594	(5,014)	(23.2)%	94.1 % (2)	94.4 %
Cost of pass-through revenue	64,174	61,979	2,195	3.5 %	100.0 % (3)	100.0 %
Total costs of revenues	227,065	221,858	5,207	2.3 %	81.9 %	81.3 %
Service fee gross profit	49,205	49,731	(526)	(1.1)%	25.2 % (1)	26.5 %
Product revenue gross profit	1,032	1,271	(239)	(18.8)%	5.9 % (2)	5.6 %
Total gross profit	50,237	51,002	(765)	(1.5)%	18.1 %	18.7 %
Selling, general and administrative expenses	61,040	54,348	6,692	12.3 %	22.0 %	19.9 %
Loss from operations	(10,803)	(3,346)	(7,457)	222.9 %	(3.9)%	(1.2)%
Interest expense, net	879	1,486	(607)	(40.8)%	0.3 %	0.5 %
Loss on extinguishment of debt	426	—	426	— %	0.2 %	— %
Loss from continuing operations before income taxes	(12,108)	(4,832)	(7,276)	150.6 %	(4.4)%	(1.8)%
Income tax expense, net	1,530	1,340	190	14.2 %	0.6 %	0.5 %
Net loss from continuing operations	$ (13,638)	$ (6,172)	$ (7,466)	121.0 %	(4.9)%	(2.3)%

(1) Represents the measure as a percentage of Service fee revenue.
(2) Represents the measure as a percentage of Product revenue, net.
(3) Represents the measure as a percentage of Pass-through revenue.

Total revenues for the year ended December 31, 2021 increased by $4.4 million compared with the prior year. Service fee revenue for the year ended December 31, 2021 increased by $7.5 million compared to the prior year primarily due to (1) new client activity, (2) expansion of existing client relationships, and (3) fulfillment volumes during the three months ended March 31, 2021 being much higher than the pre-pandemic fulfillment volumes in the corresponding three month period in 2020, all of which were partially offset by certain client terminations and the impact of certain LiveArea client related activity as described below.

Certain client contracts supported by the LiveArea segment were not fully transferred to the buyer as part of the LiveArea Transaction. Subsequent to the LiveArea Transaction Date, PFSweb is acting as a prime contractor for these certain client contracts and the related services are being provided by the former LiveArea business as a subcontractor of PFSweb. The services provided under these client contracts are currently being managed by PFSweb, and as such, the related service fee revenues, costs of revenues and gross profit previously generated by this LiveArea related activity have been included in our continuing operations. Service fee revenue billed under this contractor-subcontractor relationship are expected to be recorded as pass-through revenue and pass-through costs for as long as such contracts continue to be managed directly by PFSweb. Service fee revenues generated under these contracts applicable to our former LiveArea segment of $8.8 million and $13.1 million are included in service fee revenue in the consolidated statement of operations and comprehensive income (loss) for the years ended December 31, 2021 and 2020, respectively.

Product revenue, net, for the year ended December 31, 2021 decreased by $5.3 million compared with the prior year. Product revenue declined as it was primarily dependent on one client, which restructured its operations and discontinued certain product lines. In March 2022, our product revenue model was discontinued. See Note 17. Subsequent Events in Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

Pass-through revenue for the year ended December 31, 2021 increased by $2.2 million compared to the prior year. Pass through revenue increased primarily due to increased freight activity (the primary component of pass-through revenue) applicable to certain client accounts.

Gross margin decreased to 18.1% for the year ended December 31, 2021 as compared to 18.7% in the prior year. The decreased gross margin is due to a decrease of our service fee margin to 25.2% for the year ended December 31, 2021 as compared to 26.5% in the prior year, primarily as a result of increased fulfillment labor rates and personal protective equipment related costs, partially offset by higher margin project activity. Additionally, our gross margin was negatively impacted by reduced technology-related project activity and other higher margin non-fulfillment related activity. The overall gross margin decrease was partially offset by our service fee business, which generates a higher gross margin than the product revenue and pass-through revenue activity representing a larger proportion of our total revenues for the year ended December 31, 2021, as compared to the prior year.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $6.7 million for the year ended December 31, 2021 compared to the prior year. The increase was primarily attributable to (1) the prior year included a reduction to vacation expense related to a change in policy to allow for the introduction of a flexible vacation policy that was not restricted to time earned by the Company for US employees, (2) increased personnel related costs in 2021, (3) increased facility related costs, (4) transaction bonuses for certain executives and employees of PFSweb related to the LiveArea Transaction and (5) costs related to the Company's ongoing strategic alternatives assessment process. These increases were slightly offset by $1.3 million of other income applicable to the transition services agreement related to the LiveArea Transaction.

Income Taxes

During the twelve months ended December 31, 2021, we recorded a tax provision of $1.5 million, comprised primarily of $2.6 million related to losses with no tax benefit, $0.8 million related to state income taxes, and $0.9 million related to tax liability on investment in a foreign subsidiary, offset by $2.4 million losses at the statutory rate and a $1.3 million release of valuation allowance. A valuation allowance has been provided for certain domestic net deferred tax assets, which are primarily related to our non-qualified stock options, foreign tax credit carryforwards, deferred revenue, accruals and certain foreign deferred tax assets.

Discontinued Operations

See Note 3. Discontinued Operations to the consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K for information regarding discontinued operations.

Liquidity and Capital Resources

In conjunction with the LiveArea Transaction in August 2021, we generated approximately $250.0 million in gross proceeds, of which approximately $62.5 million was used to pay off and extinguish the Company’s Credit Agreement with Regions Bank ("the Amended Facility"). Additionally, we incurred approximately $15 million in cash-based transaction related costs in 2021 and used proceeds of approximately $35 million to make estimated income tax payments related to the LiveArea Transaction. Our improved cash position, as a result of the LiveArea Transaction, will satisfy our known operating cash needs, working capital and capital expenditure requirements, debt and lease obligations, loans to our subsidiaries, if needed, and potential distributions to shareholders for at least the next twelve months. However, our cash position could be adversely impacted by the uncertain duration and extent of the COVID-19 pandemic, increasing labor costs and our ability to adjust our overall cost structure to support a smaller remaining business following the completion of the LiveArea Transaction.

Cash Flows from Operating Activities

During the year ended December 31, 2021, net cash used in operations was $42.7 million, which includes $35.8 million of income tax payments primarily related to the LiveArea Transaction, compared to net cash provided by operations of $1.8 million in the prior year. The year ended December 31, 2021 included a net use of cash related to operations before changes in operating assets and liabilities. The year ended December 31, 2020 included a benefit from cash income generated from

operations before changes in operating assets and liabilities. Such cash use and benefit were then either increased or decreased, depending on period, by the net impact of changes in assets and liabilities, primarily related to the amount and timing of client revenue billings and collections, vendor purchasing and payment activity and payment of income taxes.

We have deferred payments totaling $3.7 million under the CARES Act, in calendar year 2020, of which half was due and paid in December 2021 with the remainder to be paid in December 2022.

Cash Flows from Investing Activities

Cash provided by investing activities for the year ended December 31, 2021 included proceeds from the LiveArea Transaction, net of transaction costs and cash divested of $236.4 million. Capital expenditures were $7.6 million and $4.2 million during the years ended December 31, 2021 and 2020, respectively, exclusive of property and equipment acquired under debt and finance lease financing, which consisted primarily of capitalized software costs and equipment purchases. Due to the proceeds received from the LiveArea Transaction, the Company is now primarily using its existing cash to fund capital expenditures, whereas in the past the company would utilize a combination of cash and debt. 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 facilities, contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in additions and upgrades to facilities and information technology solutions and services for the upcoming twelve months, including costs to implement new clients, will be approximately $8.0 million to $10.0 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements or operating or finance leases.

Cash Flows from Financing Activities

During the year ended December 31, 2021, cash used in financing activities was $44.5 million primarily driven by the repayment of the Amended Facility with proceeds from the LiveArea Transaction. Cash used in financing activities was $0.2 million during the year ended December 31, 2020 primarily due to net borrowing and payment activity on our revolving loan and other debt.

Working Capital

During the year ended December 31, 2021, our working capital increased to $165.1 million compared to $24.0 million at December 31, 2020, which was primarily driven by the net proceeds received from the LiveArea Transaction, less working capital sold in conjunction with the LiveArea Transaction, and the extinguishment of the Company’s Amended Facility.

To obtain any necessary additional financing in the future, in addition to our current cash position, we continue to evaluate our needs in light of various financing alternatives potentially available including the sale of equity, utilizing capital or operating leases, 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 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.

Inventory Financing

Supplies Distributors, an indirect wholly-owned subsidiary of the Company, has a short-term credit facility with Peridot Financing Solutions (as successor to IBM Credit LLC) and its assignees (“IBM Credit Facility”) to finance its purchase and distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to $5.5 million, as per an amended agreement. The agreement has no stated maturity date and provides either party the ability to exit the facility following a 90 day notice.

Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, we have classified the outstanding amounts under this facility, which were $3.5 million and $3.6 million as of December 31, 2021 and December 31, 2020, respectively, as trade accounts payable in the consolidated balance sheets. As of December 31, 2021, Supplies Distributors had $0.1 million of available credit under this facility. The IBM Credit Facility contains cross default provisions and 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 IBM Credit Facility also contains financial covenants, such as annualized revenue to

working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $1.0 million, as per an amended agreement. Borrowings under the IBM Credit Facility accrue interest, after a defined free financing period, at prime rate plus 0.5%, which resulted in a weighted average interest rate of 3.75% for both December 31, 2021 and 2020. As of December 31, 2021, the Company was in compliance with all financial covenants under the IBM Credit Facility. In the first half of 2022 the IBM Credit Facility was terminated in connection with the transition of our relationship with Ricoh. See Note 17. Subsequent Events to the consolidated financial statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Debt and Finance Lease Obligations

US Credit Agreement. Until August 25, 2021, we had a credit agreement, which was later amended ("Amended Facility") with Regions Bank and certain other banking parties. The Amended Facility provided revolving loan availability up to $60.0 million, with the ability for an increase of $20.0 million, and had a maturity date of November 1, 2023. Borrowings under the Amended Facility accrued interest at a variable rate based on prime rate or LIBOR, plus an applicable margin. At December 31, 2020, the weighted average interest rate on the Amended Facility was 2.52%.

In connection with LiveArea Transaction, all amounts outstanding under the Amended Facility were paid in full on August 25, 2021 and the Amended Facility was terminated.

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

Other than our finance and operating lease commitments, we do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

Debt Covenants

The IBM Credit Facility 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. As of December 31, 2021, the Company was in compliance with all financial covenants under the IBM Credit Facility.

Off-Balance Sheet Arrangements

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

New Accounting Pronouncements

See Note 2 "Significant Accounting Policies" to the consolidated financial statements in Item 8 of Part II of this Annual Report on Form 10-K for our discussion about new accounting pronouncements adopted and those pending.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

We derive revenue primarily from services provided under contractual arrangements with our clients or from the sale of products under our distributor agreements. We recognize revenue in accordance with Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606"), when control of the promised goods or services is transferred to our clients and customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services.

We will often enter into contracts with clients and customers that contain multiple promises to transfer control of multiple products and/or services. To the extent a contract includes provisioning multiple products or services, we apply judgment to determine whether promised deliverables are capable of being distinct and are distinct in the context of the contract. If these criteria are not met, sales of different products or services are accounted for as a combined performance obligation. For arrangements with multiple distinct performance obligations, we allocate consideration among the performance obligations based on their relative standalone selling price. Standalone selling price is the price at which we would sell a promised good or service separately to our client and customers.

The Company may execute more than one contract or agreement with a single customer. The separate contracts or agreements may be viewed as one combined arrangement or separate agreements for revenue recognition purposes. In order to reach appropriate conclusions regarding whether such agreements should be combined, the Company evaluates whether the agreements were negotiated as a package with a single commercial objective, whether the amount of consideration to be paid in one agreement depends on the price and/or performance of another agreement, or whether the good or services promised in the agreements represent a single performance obligation. The conclusions reached can impact the identification of distinct performance obligations, allocation of the transaction price to each performance obligation and the timing of revenue recognition related to those arrangements

Our service fee revenue primarily relates to our order to cash, fulfillment, customer care, consulting, and technology services.

We typically charge our service fee revenue on either a cost-plus basis, a percent of shipped revenue basis, a time and materials basis, project or retainer basis for our professional services, or a per transaction basis, such as a per item basis for fulfillment services or a per labor hour basis for web-enabled customer contact center services. Additional fees are billed for other services. For technology services, we typically charge on a fixed cost basis based on an estimated maximum number of professional service labor hours or bill for each professional labor hour at a per hour price.

Our performance obligations typically consist of standing ready to provide a service over a contract term. As such, our performance obligations within service fee revenue across the company are generally transferred to clients over time. A time-elapsed output measure is used to determine progress, with individual time increments representing a single series performance obligation. Variable consideration, including discounts, rebates, incentives, penalties and other similar items, charged within these contracts is allocated to the individual reporting period in which the service was provided. The Company has determined that the above method provides a reasonable depiction of the transfer of services to the customer.

We perform set-up and integration services to support our fulfillment activities. When we determine these set-up and integration services do not meet the criteria for recognition as a separate performance obligation, any start up fees received represent a non-refundable up-front fee and are allocated to the other performance obligations within that contract. The Company recognizes revenue for non-refundable upfront implementation fees on a straight-line basis over the period between the initiation of the services through the end of the contract term. Related costs are capitalized as costs to fulfill the contract and are recognized over the expected performance period.

For contracts recognized over time, we recognize the estimated loss to the extent the project has been completed based on actual hours incurred compared to the total estimated hours. A loss is recognized when the current estimate of the consideration we expect to receive, modified to include any variable consideration, is less than the current estimate of total costs for the contract.

In instances where revenue is derived from sales of third-party vendor services, we record revenue on a gross basis when we are a principal to the transaction and net of costs when we are acting as an agent between the customer or client and the vendor. Whether we are the principal or agent in the transaction is determined by whether we control the service being provided.

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

Stock Compensation

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

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

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

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

Income Taxes

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

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

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Not applicable.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors

PFSweb, Inc.

Allen, TX

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of PFSweb, Inc. (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), shareholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated May 9, 2022 expressed an adverse opinion thereon.

Basis for Opinion

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

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Tax Implications of Gain on Sale for Certain Divestitures

On July 2, 2021, the Company entered into a definitive agreement to sell its LiveArea segment for approximately $250.0 million in cash, subject to certain adjustments and customary closing conditions including receipt of regulatory approvals. As discussed in Notes 1 and 2, the LiveArea Transaction closed on August 25, 2021 for gross proceeds of approximately $250.0 million in cash, resulting in a pre-tax gain of $200.8 million. The Company also entered into a reorganization prior to the sale of the LiveArea segment to prepare for the completion of the planned sale.

We identified tax implications of the reorganization, including the fair value determination of certain entities, and the gain on the sale of LiveArea as a critical audit matter due to the complexities of these transactions. Ensuring compliance with certain domestic and foreign tax laws used in the calculation of the taxes associated with the reorganization and sale of LiveArea was especially complex due to the nature and extent of audit effort required to address the matter, including the involvement of professionals with specialized skill and knowledge.

The primary procedures we performed to address this critical matter included:

a. Utilizing personnel with specialized tax knowledge in assessing the US federal and state and foreign tax accounting for the:

   i. sale transaction
   ii. reorganization
   iii. assessing the taxability of transactions costs

b. Utilizing a valuation specialist to assist in evaluating the appropriateness of the methodologies and valuation models utilized by management to determine the fair value of its LiveArea subsidiary in the United Kingdom.

/s/ BDO USA, LLP

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

Dallas, Texas

May 9, 2022

PFSWEB, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31
(In thousands, except share data)

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 152,332	$ 10,359
Restricted cash	214	214
Accounts receivable, net of allowance for doubtful accounts of $867 and $611 at December 31, 2021 and December 31, 2020, respectively	78,024	69,594
Inventories, net of reserves of $57 and $96 at December 31, 2021 and December 31, 2020, respectively	3,133	3,644
Other receivables	7,005	3,314
Prepaid expenses and other current assets	7,244	7,524
Current assets of discontinued operations	—	13,920
Total current assets	247,952	108,569
Property and equipment, net	19,315	17,517
Operating lease right-of-use assets, net	35,370	34,349
Goodwill	22,218	22,358
Other assets	1,611	386
Long-term assets of discontinued operations	—	31,717
Total assets	$ 326,466	$ 214,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 36,450	$ 34,613
Accrued expenses	31,643	26,242
Current portion of operating lease liabilities	10,104	9,399
Current portion of long-term debt and finance lease obligations	222	3,411
Deferred revenue	4,391	4,595
Current liabilities of discontinued operations	—	6,285
Total current liabilities	82,810	84,545
Long-term debt and finance lease obligations, less current portion	89	39,069
Deferred revenue, less current portion	833	1,341
Operating lease liabilities	30,393	30,012
Other liabilities	2,565	5,286
Long-term liabilities of discontinued operations	—	545
Total liabilities	116,690	160,798
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.001 par value; 35,000,000 shares authorized; 22,131,546 and 20,408,558 issued at December 31, 2021 and December 31, 2020, respectively; and 22,098,079 and 20,375,091 outstanding at December 31, 2021 and December 31, 2020, respectively	21	20
Additional paid-in capital	177,511	168,244
Retained earnings (accumulated deficit)	33,522	(113,712)
Accumulated other comprehensive loss	(1,153)	(329)
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	209,776	54,098
Total liabilities and shareholders' equity	$ 326,466	$ 214,896

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

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31
(In thousands, except per share data)

	2021	2020
Revenues:		
Service fee revenue	$ 195,516	$ 188,016
Product revenue, net	17,612	22,865
Pass-through revenue	64,174	61,979
Total revenues	277,302	272,860
Costs of Revenues:		
Cost of service fee revenue	146,311	138,285
Cost of product revenue	16,580	21,594
Cost of pass-through revenue	64,174	61,979
Total costs of revenues	227,065	221,858
Gross profit	50,237	51,002
Selling, general and administrative expenses	61,040	54,348
Loss from operations	(10,803)	(3,346)
Interest expense, net	879	1,486
Loss on extinguishment of debt	426	—
Loss from continuing operations before income taxes	(12,108)	(4,832)
Income tax expense, net	1,530	1,340
Net loss from continuing operations	(13,638)	(6,172)
Income from discontinued operations before income taxes	196,508	1,401
Income tax expense, net	35,636	198
Net income from discontinued operations	160,872	1,203
Net income (loss)	$ 147,234	$ (4,969)
Basic earnings (loss) per share:		
Net loss from continuing operations per share	$ (0.64)	$ (0.31)
Net income from discontinued operations per share	7.51	0.06
Basic earnings (loss) per share	$ 6.87	$ (0.25)
Diluted earnings (loss) per share:		
Net loss from continuing operations per share	$ (0.64)	$ (0.31)
Net income from discontinued operations per share	7.51	0.06
Diluted earnings (loss) per share	$ 6.87	$ (0.25)
Weighted average number of shares outstanding:		
Basic	21,410	20,005
Diluted	21,410	20,005
Comprehensive income		
Net income (loss)	$ 147,234	$ (4,969)
Foreign currency translation adjustment, net of taxes	(497)	972
Reclassifications of foreign currency translation adjustment realized upon disposal of business	(327)	$ —
Total comprehensive income (loss)	$ 146,410	$ (3,997)

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

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share data)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Amount				Shares	Amount	
Balance, December 31, 2019	19,465,877	$ 19	$ 158,192	$ (108,743)	$ (1,301)	33,467	$ (125)	$ 48,042
Net loss	—	—	—	(4,969)	—	—	—	(4,969)
Stock-based compensation expense	—	—	10,785	—	—	—	—	10,785
Exercise of stock options	113,583	—	542	—	—	—	—	542
Issuance of shares under stock-based compensation awards	829,098	1	—	—	—	—	—	1
Taxes paid on behalf of employees for withheld shares	—	—	(1,275)	—	—	—	—	(1,275)
Foreign currency translation adjustment, net of taxes	—	—	—	—	972	—	—	972
Balance, December 31, 2020	20,408,558	$ 20	$ 168,244	$ (113,712)	$ (329)	33,467	(125)	$ 54,098
Net income	—	—	—	147,234	—	—	—	147,234
Stock-based compensation expense	—	—	9,398	—	—	—	—	9,398
Exercise of stock options	526,467	—	3,030	—	—	—	—	3,030
Issuance of shares under stock-based compensation awards	1,196,521	1	—	—	—	—	—	1
Taxes paid on behalf of employees for withheld shares	—	—	(3,161)	—	—	—	—	(3,161)
Foreign currency translation adjustment, net of taxes	—	—	—	—	(824)	—	—	(824)
Balance, December 31, 2021	22,131,546	$ 21	$ 177,511	$ 33,522	$ (1,153)	33,467	$ (125)	$ 209,776

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

PFSWEB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(In thousands)

	2021	2020
Cash flows from operating activities:		
Net income (loss)	$ 147,234	$ (4,969)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,074	8,666
Loss on early extinguishment of debt	426	—
Gain on LiveArea Transaction	(200,817)	—
Deferred income taxes	2,527	(132)
Stock-based compensation expense	9,398	10,785
Other	132	510
Changes in operating assets and liabilities:		
Accounts receivable	(19,243)	(7,328)
Related party receivable	—	(730)
Inventories	481	(315)
Prepaid expenses, other receivables and other assets	(1,851)	(1,957)
Operating leases	11	(757)
Trade accounts payable, deferred revenue, accrued expenses and other liabilities	10,977	(1,977)
Net cash provided by (used in) operating activities	(42,651)	1,796
Cash flows from investing activities:		
Purchases of property and equipment	(7,614)	(4,196)
Proceeds from LiveArea Transaction, net of cash divested	236,358	—
Proceeds from sale of property and equipment	45	4
Net cash provided (used) by investing activities	228,789	(4,192)
Cash flows from financing activities:		
Net proceeds from issuance of common stock	3,030	542
Taxes paid on behalf of employees for withheld shares	(3,161)	(1,275)
Payments on finance lease obligations	(871)	(1,173)
Payments on revolving loan	(160,181)	(102,107)
Borrowings on revolving loan	126,681	105,407
Payments on other debt	(10,051)	(2,700)
Borrowings on other debt	49	1,517
Net cash provided by (used in) financing activities	(44,504)	211
Effect of exchange rates on cash and cash equivalents	(53)	502
Net increase (decrease) in cash and cash equivalents	141,581	(1,683)
Cash and cash equivalents, beginning of period	10,359	11,354
Restricted cash, beginning of period	214	214
Cash and cash equivalents of discontinued operations, beginning of period	392	1,080
Cash and cash equivalents and restricted cash, beginning of period	10,965	12,648
Cash and cash equivalents, end of period	152,332	10,359
Restricted cash, end of period	214	214
Cash and cash equivalents discontinued operations, end of period	$ —	$ 392
Cash and cash equivalents and restricted cash, end of period	$ 152,546	$ 10,965
Supplemental cash flow information		
Cash paid for income taxes	$ 35,776	$ 2,141
Cash paid for interest	766	1,391
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and finance leases	2,193	4,676

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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Overview and Basis of Presentation

Description of the Company

PFSweb, Inc. and its subsidiaries are collectively referred to as the “Company”, "PFSweb", “us”, “we” or “our”; “Supplies Distributors” collectively refers to Supplies Distributors, Inc. and its subsidiaries; and “PFS” refers to PFSweb, Inc. and its subsidiaries, excluding Supplies Distributors.

PFSweb is a global provider of omnichannel commerce solutions, including a broad range of technology, infrastructure and professional services, to major brand name companies and others seeking to optimize their supply chain and to enhance their online and traditional business channels and initiatives in the United States, Canada and Europe. PFSweb’s service offerings include order fulfillment, fulfillment-as-a-Service, order management and customer care.

Supplies Distributors and PFS operate under distributor agreements with Ricoh Company Limited and Ricoh USA Inc., a strategic business unit within the Ricoh Family Group of Companies (collectively hereafter referred to as “Ricoh”), under which Supplies Distributors acts as a distributor of various Ricoh products. Supplies Distributors sells its products primarily in the United States. Pursuant to agreements between PFS and Supplies Distributors, PFS provides transaction management and fulfillment services to Supplies Distributors. As a result of a restructure of Ricoh, the distributor agreements ended in March 2022. See Note 17 Subsequent Events.

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

Basis of Presentation

The consolidated financial statements contained in this Annual Report on Form 10-K were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for all periods presented and include the accounts of the Company and its majority owned subsidiaries over which the Company exercises control.

In July 2021, we announced an agreement to sell our LiveArea Professional Services business unit ("LiveArea") and the divestiture was completed on August 25, 2021 ("the LiveArea Transaction"). All periods presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (this "Form 10-K") have been recast to present LiveArea as a discontinued operation. See Note 3. Discontinued Operations for additional information on our sale of LiveArea.

Revision of previously issued consolidated financial statements

In connection with the preparation of its financial statements for the quarter ended June 30, 2021, the Company identified an immaterial error related to deferred income taxes that were incorrectly recorded in prior periods. In accordance with Staff Accounting Bulletin (“SAB”) No. 99, Materiality and SAB No. 108, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements, the Company evaluated the materiality of this error both quantitatively and qualitatively and determined that it was not material to any previously issued interim or annual consolidated financial statements. However, adjusting for the cumulative effect of this error in the consolidated statement of operations and comprehensive income (loss) for the three months ended June 30, 2021 would be material to the Company’s results for that period as the cumulative amount of the error increased over time. As such, the Company has revised its previously issued consolidated balance sheet as of December 31, 2020 and its consolidated financial statements for the year ended December 31, 2020 to correct the error.

The accompanying financial statements and relevant footnotes to the consolidated financial statements in this Form 10-K have been revised to correct for the immaterial error discussed above. The tables below provide reconciliations of our previously reported amounts to our revised amounts to correct for the immaterial error and to recast certain amounts in order to present LiveArea as a discontinued operation in the Company's consolidated balance sheet as of December 31, 2020 and its consolidated financial statements for the year ended December 31, 2020. See Note 3. Discontinued Operations.

The effect of the above adjustments on the consolidated balance sheet at December 31, 2020 is as follows (in thousands):

	December 31, 2020			
		Adjustments		
	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Long-term assets of discontinued operations	$ —	$ 29,982	$ 1,735	$ 31,717
Total assets	$ 213,161	$ —	$ 1,735	$ 214,896
Accumulated deficit	$ (115,447)	$ —	$ 1,735	$ (113,712)
Total shareholders' equity	$ 52,363	$ —	$ 1,735	$ 54,098
Total liabilities and shareholders' equity	$ 213,161	$ —	$ 1,735	$ 214,896

The effect of the above adjustments on the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2020 is as follows (in thousands, except per share data):

	Year Ended December 31, 2020			
		Adjustments		
	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Income from discontinued operations before income taxes	$ —	$ 1,401	$ —	$ 1,401
Income tax expense, net	—	733	(535)	198
Net income from discontinued operations	—	668	535	1,203
Net loss	$ (5,504)	$ —	$ 535	$ (4,969)
Basic earnings (loss) per share:				
Net income loss from discontinued operations per share	$ —	$ 0.03	$ 0.03	$ 0.06
Basic loss per share	$ (0.28)	$ —	$ 0.03	$ (0.25)
Diluted earnings (loss) per share:				
Net income from discontinued operations per share	$ —	$ 0.03	$ 0.03	$ 0.06
Diluted loss per share	$ (0.28)	$ —	$ 0.03	$ (0.25)
Comprehensive loss:				
Net loss	$ (5,504)	$ —	$ 535	$ (4,969)
Total comprehensive loss	$ (4,532)	$ —	$ 535	$ (3,997)

The effect of the above adjustments on the consolidated statement of shareholders' equity for the year ended December 31, 2020 is as follows (in thousands):

	Year Ended December 31, 2020			
		Adjustments		
Accumulated deficit	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Balance, December 31, 2019	$ (109,943)	$ —	$ 1,200	$ (108,743)
Net loss	(5,504)	—	535	(4,969)
Balance, December 31, 2020	$ (115,447)	$ —	$ 1,735	$ (113,712)

The effect of the above adjustments on the consolidated statement of cash flows for the year ended December 31, 2020 is as follows (in thousands):

	Year Ended December 31, 2020			
		Adjustments		
	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Cash flows from operating activities:				
Net loss	$ (5,504)	$ —	$ 535	$ (4,969)
Deferred income taxes	$ 403	$ —	$ (535)	$ (132)
Net cash provided by operating activities	$ 1,796	$ —	$ —	$ 1,796

The effect of the above adjustments on the unaudited condensed consolidated statement of operations and comprehensive income (loss) for the three months ended March 31, 2021 is as follows (in thousands, except per share data):

	Three Months Ended March 31, 2021			
		Adjustments		
	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Loss from discontinued operations before income taxes	$ —	$ (821)	$ —	$ (821)
Income tax expense, net	—	733	(157)	576
Net loss from discontinued operations	—	(1,554)	157	(1,397)
Net loss	$ (2,381)	$ —	$ 157	$ (2,224)
Basic loss per share:				
Net loss from discontinued operations per share	$ —	$ (0.08)	$ 0.01	$ (0.07)
Basic loss per share	$ (0.11)	$ —	$ 0.01	$ (0.10)
Diluted loss per share:				
Net loss from discontinued operations per share	$ —	$ (0.08)	$ 0.01	$ (0.07)
Diluted loss per share	$ (0.11)	$ —	$ 0.01	$ (0.10)
Comprehensive loss:				
Net loss	$ (2,381)	$ —	$ 157	$ (2,224)
Total comprehensive loss	$ (2,736)	$ —	$ 157	$ (2,579)

The effect of the above adjustments on the unaudited condensed consolidated statement of shareholders’ equity for the three months ended March 31, 2021 is as follows (in thousands):

	Three Months Ended March 31, 2021			
		Adjustments		
Accumulated deficit	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Balance, December 31, 2020	$ (115,447)	$ —	$ 1,735	$ (113,712)
Net loss	(2,380)	—	157	(2,223)
Balance, March 31, 2021	$ (117,827)	$ —	$ 1,892	$ (115,935)

The effect of the above adjustments on the unaudited condensed consolidated statement of cash flows for the three months ended March 31, 2021 is as follows (in thousands):

	Three Months Ended March 31, 2021			
		Adjustments		
	As Previously Reported	Discontinued Operations	Deferred Tax Asset	As Revised
Cash flows from operating activities:				
Net loss	$ (2,380)	$ —	$ 157	$ (2,223)
Deferred income taxes	$ 173	$ —	$ (157)	$ 16
Net cash provided by operating activities	$ 8,484	$ —	$ —	$ 8,484

COVID-19 Pandemic

We continue to monitor the impact of the COVID-19 pandemic (and any variants thereof) on all aspects of our business. While the COVID-19 pandemic has not had a material adverse impact on our results of operations to date, the future impacts of the pandemic and any resulting economic impact are still uncertain as the pandemic continues to evolve. We have experienced labor rate increases in certain of our markets for fulfillment activities and labor shortages in all markets. We believe this will continue and that this could impact our overall fulfillment related costs and staffing. In the interim, we are leveraging our multi-node network and distributing work to our centers with more available labor and/or lower costs, implementing certain productivity enhancements, working together with our clients to reduce costs, and offsetting the cost increases with price increases where necessary.

We have taken a number of precautionary measures designed to help minimize the risk of the spread of the virus to our employees and adjusted our operations wherever necessary to help ensure a safe environment for our staff across business functions. As a result of the impact of COVID-19, many businesses continue to experience short-term or long-term liquidity issues. Based on our current expectations, we believe we have the appropriate financial structure in place to support our own business operations through the pandemic. However, we do expect ongoing potential risk from the viability of clients and their ability to make payments on time as a result of the pandemic. We have and will continue to closely monitor our clients' financial results, payment patterns and business updates in an effort to minimize any potential credit risk impact.

While many of the related restrictions have been lifted, we have also seen a resurgence of the virus (including new variants) in many geographic regions, which could have a negative impact on our business and adversely affect the Company's results of operations, cash flows and financial position as well as that of our clients.

We incurred additional costs related to the enhanced cleaning regimen implemented in our facilities and purchases of personal protective equipment ("PPE") for employees. However, for the years ended December 31, 2021 and 2020, the increased costs related to the COVID-19 pandemic, excluding hourly wage rate related labor cost increases, were not material. We will continue to monitor these for potential impacts to future cash flow.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted and signed into law. The Company has made use of the allowance granted under section 2302 of the CARES Act, which permits employers to forgo timely payment of the employer portions of Social Security and RRTA taxes that would otherwise be due from March 27 through December 31, 2020, without penalty or interest charges. We have elected this option and it has resulted in deferred payments totaling $3.7 million, due in equal payments on December 31, 2021 and December 31, 2022. Similarly, the UK and Belgium governments have granted businesses the option to defer the payment of certain value-added tax ("VAT") amounts from calendar year 2020 to calendar year 2021. We have elected to take advantage of the options available to us from these allowances.

2. Significant Accounting Policies

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make judgments, estimates and

assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The recognition and allocation of certain revenues, costs of revenues, selling, general and administrative expenses and income tax expense 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 various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's consolidated financial statements are fairly stated in accordance with US GAAP and provide a fair presentation of the Company's financial position and results of operations.

Revenue and Cost Recognition

The Company derives revenue primarily from services provided under contractual arrangements with our clients or from the sale of products under our distributor agreements. The majority of our revenue is derived from contracts and projects that can span from a few months to three to five years.

The Company recognizes revenue when control of the promised goods or services is transferred to its clients and customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Control is transferred to a client or customer when, or as, the client or customer obtains control over that asset. The transaction price includes fixed and, in certain contracts, variable consideration.

Variable consideration contained within our contracts includes discounts, rebates, incentives, penalties and other similar items. When a contract includes variable consideration, the Company estimates the variable consideration to determine whether any of it needs to be constrained. The Company includes the variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. We estimate variable consideration and constraints based on our review of the contract terms and conditions. Variable consideration and constraint amounts also consider the most likely amounts based on our history with the customer. If no history is available, then we will recognize the most likely amount based on the range of possible consideration amounts. Variable consideration was not significant for the years ended December 31, 2021 and 2020. Variable consideration and constraints are updated at each reporting date.

The Company's billings for reimbursement of out-of-pocket expenses related to our Service Fee Revenues, consisting primarily of freight and shipping supplies, are included in pass-through revenues. Other items included in pass-through revenues include travel and certain third-party vendor expenses such as telecommunication charges. These other pass-through revenues are not deemed a material percentage of total revenues. In certain of our contracts, our clients elect to handle their shipping related costs directly with the carriers. Therefore, we present pass-through revenues separately, as we believe it provides better transparency to our core services.

Incremental costs to obtain a contract (such as sales commissions) are expensed when incurred when the amortization period is one year or less; otherwise, incremental contract costs are expensed over time as promised goods and services are transferred to a customer. Recurring operating costs for contracts with clients and customers are recognized as incurred. Certain eligible, nonrecurring costs incurred in the initial phases of our contracts are capitalized when such costs (1) relate directly to the contract, (2) generate or enhance resources that will be used in satisfying the performance obligation in the future and (3) are expected to be recovered. Capitalized amounts are monitored regularly for impairment.

The Company enters into contracts with clients and customers that contain multiple promises to transfer control of multiple products and/or services. To the extent a contract includes provisioning multiple products or services, judgment is applied to determine whether promised deliverables are distinct and are distinct in the context of the contract. If this criterion is not met, sales of different products or services are accounted for as a combined performance obligation. For arrangements with multiple distinct performance obligations, consideration is allocated among the performance obligations based on their relative standalone selling price. Standalone selling price is the price at which we would sell a promised good or service separately to the client or customer. Our warranties generally provide a client or customer with assurance that the related deliverable will function as the parties intended because it complies with agreed-upon specifications and is therefore not considered an additional performance obligation in the contract.

The Company may execute more than one contract or agreement with a single client or customer. The separate contracts or agreements may be viewed as one combined arrangement or separate agreements for revenue recognition purposes. In order to reach appropriate conclusions regarding whether such agreements should be combined, the Company evaluates whether the agreements were negotiated as a package with a single commercial objective, whether the amount of consideration to be paid in one agreement depends on the price and/or performance of another agreement, or whether the good or services promised in the agreements represent a single performance obligation. The conclusions reached can impact the identification of distinct performance obligations, allocation of the transaction price to each performance obligation and the timing of revenue recognition related to those arrangements.

For contracts recognized over time, we recognize the estimated loss to the extent the project has been completed based on actual hours incurred compared to the total estimated hours. A loss is recognized when the current estimate of the consideration we expect to receive, modified to include any variable consideration, is less than the current estimate of total costs for the contract.

Service Fee Revenue

The Company's service fee revenue primarily relates to our order to cash, fulfillment, and customer care services. The Company typically charges its service fee revenue on either a time and materials, fixed price, cost-plus a margin, a percent of shipped revenue, or retainer basis for professional services, or a per transaction basis, such as a per item basis for fulfillment services or a per labor hour basis for customer contact center services. Additional fees are billed for other services.

Product Revenue

Depending on the terms of the customer arrangement, product revenue and product cost is recognized at the point the customer gains control of the asset. The specific point in time when control transfers depends on the contract with the customer. Typically, our terms are Freight on Board ("FOB") Shipping point, which we believe to be indicative of when control is transferred. We permit our customers to return product. Product revenue is reported net of projected future returns. Future returns are estimated based on historical return information. Management also considers any other current information and trends in making estimates.

Gross versus Net Revenue

In instances where revenue is derived from product sales from a third-party, we record revenue on a gross basis when we are a principal to the transaction and net of costs when we are acting as an agent between the customer or client and the vendor. We are the principal and record revenue on a gross basis if we control a promised good or service before transferring that good or service to the customer. We are an agent and record revenue on a net basis for what we retain for agency services if our role is to arrange for another entity to control the promised goods or services.

Practical expedients

Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606") allows entities to use several practical expedients, including the as-invoiced practical expedient, determining whether a significant financing component exists, treatment of sales and usage-based taxes, and the recognition of certain incremental costs of obtaining a contract with a client or customer. Contracts of less than a year with a financing component will be expensed in that period as a practical expedient. Our current contracts do not have a financing component. Commissions on contracts of less than one year will be expensed as a practical expedient. Commissions will be capitalized on contracts over one year. As of December 31, 2021 and 2020, we did not have any material commissions on contracts in excess of one year. We present our revenues net of sales and usage-based tax as a practical expedient.

C*ontract modifications*

Contract modifications are routine in our industry. For each modification, the Company assesses whether the modification changes the scope and or price of the original agreement and whether those changes are commensurate with stand-alone selling price. Based on the results of this assessment, the Company either accounts for the modification as a separate contract, as a change in the original contract, or as a termination of the old contract and creation of a new contract in accordance with Accounting Standards Codification ("ASC") 606-10-25-12.

Concentration of Business and Credit Risk

During 2021, two clients represented more than 10% of the Company's total revenues. These clients represented $37.6 million, or 14% and $31.6 million, or 11% of total revenues. During 2020, three clients each represented more than 10% of the Company's total revenues. These clients represented $38.9 million or 14.3%, $34.0 million or 12.4%, and $31.7 million or 12.0% of total revenues. As of December 31, 2021, one client exceeded 10% of the Company's total accounts receivable. As of December 31, 2020, two clients each exceeded 10% of the Company's total accounts receivable.

Cash and Cash Equivalents

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

Accounts Receivable

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

Other Receivables

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

Inventories

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

Supplies Distributors assumes responsibility for slow-moving inventory under its Ricoh distributor agreements, subject to certain termination rights, but has the right to return product rendered obsolete by engineering changes, as defined. In the event PFSweb, Supplies Distributors and Ricoh terminate the distributor agreements, the agreements provide for the parties to mutually agree on a plan of disposition of Supplies Distributors' then existing inventory. In the first half of 2022, Ricoh distributor agreement was terminated as a result of the restructuring of our client and as a result, the Company does not expect to have inventory following the termination of this agreement. See Note 17. Subsequent Events.

Property and Equipment

The Company makes judgments and estimates in conjunction with the carrying value of property and equipment, including amounts to be capitalized, depreciation and amortization methods and useful lives. Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets. Capitalized implementation costs are depreciated over the respective client expected performance period. Leasehold improvements are amortized over the shorter of the useful life of the related asset or the remaining lease term.

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

Leases

Lease assets and liabilities are recognized at the commencement date of an arrangement where it is determined at inception that a lease exists. Lease assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the lease commencement date to discount payments to the

present value. Some of these leases contain rent escalation clauses either fixed or adjusted periodically for inflation or market rates that are factored into our determination of lease payments. We also have variable lease payments that do not depend on a rate or index, primarily for items such as common area maintenance and real estate taxes, which are recorded as variable costs when incurred. The lease asset excludes incentives and initial direct costs incurred. Lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill and other intangible assets with indefinite lives are not amortized to operations, but instead are reviewed for impairment at least annually on October 1, or more frequently when there is an indicator of impairment. Goodwill impairment exists when a reporting unit's goodwill carrying value exceeds its implied fair value. The Company has no intangible asset with indefinite useful lives, other than goodwill.

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

In the event that the based on the results of the qualitative analysis, it is concluded that it is not more likely than not that the fair value of a reporting unit or indefinite-lived asset exceeds its carrying value, the one-step quantitative impairment test is performed. Under the quantitative test, the Company compares the fair value of the reporting unit with its carrying value, including goodwill. If the fair value of the reporting unit is less than its carrying value, the Company records an impairment charge equal to the excess of the carrying value over the related fair value. Fair value of the reporting unit is determined using a discounted cash flow analysis.

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

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

Accrued Expenses

The Company had $31.6 million and $26.2 million of accrued expenses on the consolidated balance sheets as of December 31, 2021 and 2020, respectively. Of these amounts, internal and contract labor costs and related employee benefit costs were approximately $14 million for both December 31, 2021 and 2020.

Foreign Currency Translation and Transactions

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

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

Stock-Based Compensation

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

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

Income Taxes

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

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

Fair Value of Financial Instruments

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

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

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

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

The carrying value of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, other receivables, trade accounts payable and debt, approximate their fair values at December 31, 2021 and 2020 based on short terms to maturity or current market prices and interest rates or observable inputs such as quoted prices in active markets.

Nonrecurring Fair Value Measurements

The purchase price of business acquisitions is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition dates, with any excess recorded as goodwill. The Company utilizes Level 3 inputs in the determination of the initial fair value of assets and liabilities. Non-financial assets such as goodwill, intangible assets, software development costs and property and equipment are subsequently measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized.

Impact of Recently Issued Accounting Standards

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (“ASU No. 2019-12”). The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740, as well as improve consistency of application by clarifying and amending existing guidance. The Company adopted ASU No. 2019-12 on January 1, 2021, the effect of which was not material on its financial position, results of operations, and cash flows.

Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*," ("ASU 2016-13") which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019 for all public entities, excluding smaller reporting companies, and after December 15, 2022 for smaller reporting companies. It requires a cumulative effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. We will adopt ASU 2016-13 on January 1, 2023. We are currently in the early phase of evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

3. Discontinued Operations

On July 2, 2021, the Company entered into a definitive agreement to sell LiveArea for approximately $250.0 million in cash, subject to certain adjustments and customary closing conditions including receipt of regulatory approvals. The Company met the criteria set forth in ASC 205-20, "Presentation of Financial Statements - Discontinued Operations," therefore, the LiveArea segment has been presented as a discontinued operation in the Company's June 30, 2021 Form 10-Q, the Company's September 30, 2021 Form 10-Q and is reported as a discontinued operation.

The LiveArea Transaction closed on August 25, 2021 for gross proceeds of approximately $250.0 million in cash, resulting in a pre-tax gain of $200.8 million. The Company incurred approximately $15 million in cash-based transaction related costs during 2021 and used proceeds of approximately $35 million to make estimated income tax payments related to the LiveArea Transaction, of which approximately $30 million was paid during the December 2021 quarter.

In connection with the LiveArea Transaction, the Company entered into a transition services agreement with the purchaser to provide certain accounting and administrative services for a period of up to twelve months. Income generated from transition services provided to the purchaser was $1.3 million for the year ended December 31, 2021 and is recorded in selling, general and administrative expenses in the consolidated statement of operations and comprehensive income (loss).

Additionally, in connection with the LiveArea Transaction, in July 2021 the Company's Board of Directors approved a modification to the Company's existing stock-based compensation plans to provide for accelerated vesting of certain restricted stock awards and stock options for LiveArea personnel. As a result of the LiveArea Transaction, approximately 635,000 shares of restricted stock and approximately 160,000 stock options previously awarded to certain executives and employees were accelerated and fully vested on August 25, 2021. Also as a result of the LiveArea Transaction, the Company's Board of Directors approved the full payout of the 2021 cash compensation plan to certain LiveArea executives and employees. Due to the acceleration of stock based compensation awards, we recorded compensation expense of $3.3 million and $0.3 million related to the stock-based compensation modification and full targeted payout of the 2021 cash compensation plan, respectively, which is included in net income (loss) from discontinued operations on the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2021.

Certain executives and employees of PFSweb, inclusive of certain LiveArea personnel, received cash transaction bonuses as a result of the successful completion of the LiveArea Transaction. We recorded compensation expense of $3.5 million for executives and employees of the LiveArea business segment, which is included in net income (loss) from discontinued operations on the consolidated statement of operations and comprehensive income (loss) for each of the year ended December 31, 2021. Due to the acceleration of stock based compensation awards, we recorded compensation expense of $1.3 million for the executives and employees of PFSweb, which is included in selling, general and administrative expense on the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2021.

As a result of the LiveArea Transaction, we now only operate in one business segment, PFS Operations, and therefore will no longer present segment data.

At December 31, 2021 there were no remaining assets and liabilities of LiveArea following the close of the LiveArea Transaction. The following table presents the carrying amount of major classes of assets and liabilities of LiveArea and a reconciliation to the amounts reported in the consolidated balance sheet (in thousands):

	December 31, 2020
ASSETS	
Current assets:	
Cash and cash equivalents	$ 392
Accounts receivable, net of allowance for doubtful accounts of $854	11,184
Related party receivable	730
Other receivables	444
Prepaid expenses and other current assets	1,170
Current assets of discontinued operations	13,920
Property and equipment, net	1,661
Operating lease right-of use assets	632
Identifiable intangibles, net	665
Goodwill	23,257
Other assets	5,502
Long-term assets of discontinued operations	31,717
Total assets of discontinued operations	$ 45,637
LIABILITIES	
Current liabilities:	
Trade accounts payable	$ 1,035
Accrued expenses	4,639
Current portion of operating lease liabilities	88
Current portion of long-term debt and finance lease obligations	3
Deferred revenues	520
Current liabilities of discontinued operations	6,285
Long-term debt and capital lease obligations, less current portion	4
Operating lease liabilities	541
Long-term liabilities of discontinued operations	545
Total liabilities of discontinued operations	$ 6,830

The following table presents the major components of net income of LiveArea through the August 25, 2021 LiveArea Transaction close date and a reconciliation to the amounts reported in the consolidated statements of operations and comprehensive income (loss) (in thousands):

	Year ended December 31,	
	2021	**2020**
Revenues:		
Service fee revenue	$ 50,197	$ 68,600
Pass-through revenue	159	—
Related party revenue	574	1,046
Total revenues	50,930	69,646
Costs of revenues:		
Cost of service fee revenue	27,173	37,241
Cost of pass-through revenue	159	—
Total costs of revenues	27,332	37,241
Gross profit	23,598	32,405
Selling, general and administrative expenses	(27,906)	(31,004)
Interest expense, net	(1)	—
Gain on sale	200,817	—
Income from discontinued operations before income taxes	196,508	1,401
Income tax expense	35,636	198
Net income from discontinued operations	$ 160,872	$ 1,203

The following table presents the depreciation and amortization, capital expenditures and significant noncash operating items of LiveArea for through the August 25, 2021 LiveArea Transaction close date (in thousands):

	Year ended December 31,	
	2021	**2020**
Cash flows from operating activities discontinued operations:		
Depreciation and amortization	$ 457	$ 1,061
Stock-based compensation expense	$ 4,613	$ 3,735
Cash flows from investing activities discontinued operations:		
Capital expenditures	$ 159	$ 53
Proceeds from sale of discontinued operations, net of cash divested	$ 236,358	$ —

4. *Revenue from Contracts with Clients and Customers*

Performance Obligations and Revenue Recognition Timing

A performance obligation is a promise in a contract to transfer a distinct good or service to the client or customer and is the unit of account in ASC 606. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied.

Our performance obligations include order to cash, fulfillment and customer care services. For arrangements with multiple distinct performance obligations, we allocate consideration among the performance obligations based on their relative standalone selling price. Standalone selling price is the price at which we would sell a promised good or service separately to our clients and customers. Variable consideration, including discounts, rebates, incentives, penalties and other similar items, charged within these contracts is allocated to the individual reporting period in which the service was provided. The Company has determined that the above method provides a reasonable depiction of the transfer of services to the customer.

We typically price our professional services contracts on either a time and materials, fixed-price or a cost-plus margin basis.

For fixed-price arrangements, we typically recognize revenue based on the input method, as we believe that hours expended over time proportionately, based on actual hours to budgeted hours during the period, provides the most relevant measure of progress for these contracts. We measure the progress for our fixed-price arrangements using a proportional performance calculation based on the actual hours worked each month as a percentage of the total estimated project hours because it best depicts the transfer of control to the customer which occurs as we deliver the services and incur costs on our contracts. For time and materials contracts, we recognize revenue monthly based on the actual hours worked at the labor rates by job category and cost of materials plus margin. We recognize revenue for a performance obligation satisfied over time only if we can reasonably measure our progress toward complete satisfaction of the performance obligation. In some circumstances (for example, in the early stages of a contract), we may not be able to reasonably measure the outcome of a performance obligation, but we expect to recover the costs incurred in satisfying the performance obligation. In those circumstances, we will recognize revenue only to the extent of the costs incurred until such time that we can reasonably measure the outcome of the performance obligation.

Contracts that are billed on a time and materials basis typically are structured such that the amount the company bills at each point in time corresponds directly with the value of our performance to date. We have elected the 'as-invoiced' practical expedient for these contracts.

In addition, PFS has certain product revenue where it acts as a reseller in which we have determined we do not have ultimate control of the provisioning of the performance obligation. For these agreements, we recognize net revenue at a point in time when control transfers to the customer, typically at FOB shipping point.

Remaining performance obligations represent the transaction price of firm orders for which work has not yet been performed. This amount does not include 1) contracts that are less than one year in duration, 2) contracts for which we recognize revenue based on the right to invoice for services performed, or 3) variable consideration allocated entirely to a wholly unsatisfied performance obligation. Much of our revenue qualifies for one of these exemptions. As of December 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations for contracts with an original expected duration of one year or more was $5.6 million. We expect to recognize revenue on approximately 77% of the remaining performance obligations in 2022 and 100% through 2023.

Contract Assets and Contract Liabilities

Contract assets primarily relate to costs to fulfill assets capitalized for implementation services. Costs to fulfill assets are related to deferred costs, which are included within other current assets and other assets, and to software development costs, which are included within property and equipment in our consolidated balance sheets. Contract liabilities primarily relate to the advance consideration received from clients for contracts, including amounts received for implementation services which are not distinct performance obligations.

Our payment terms vary by the type and location of our clients and the type of services offered. The term between invoicing and when payment is due is generally not significant.

Contract balances consisted of the following (in thousands):

	December 31, 2021	December 31, 2020
Contract Assets		
Costs to Fulfill	4,392	5,575
Total Contract Assets	$ 4,392	$ 5,575
Contract Liabilities		
Accrued Contract Liabilities	$ 2,673	$ 1,214
Deferred Revenue	5,224	5,936
Total Contract Liabilities	$ 7,897	$ 7,150

Costs to fulfill contract assets decreased $1.2 million from December 31, 2020 to December 31, 2021, primarily due to an increase of approximately $7.2 million from new projects, offset by a decrease of approximately $8.4 million due to amortization and recognition of costs in the year ended December 31, 2021.

Contract liabilities were $7.2 million at December 31, 2020, of which $5.8 million was amortized to revenue during the year ended December 31, 2021.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables and customer advances and deposits (contract liabilities) on the consolidated balance sheet.

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

	Year Ended Year Ended December 31,	
	2021	2020
Revenues:		
Over time	$ 259,690	$ 249,995
Point-in-time	17,612	22,865
Total revenues	$ 277,302	$ 272,860

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

	Year Ended Year Ended December 31,	
	2021	2020
Revenues by region:		
United States	$ 226,097	$ 212,908
Canada	5,823	4,780
Europe	45,382	55,172
Total revenues	$ 277,302	$ 272,860

5. Property and Equipment

The components of property and equipment as of December 31, 2021 and 2020 are as follows (in thousands):

	December 31,		Depreciable Life
	2021	2020	
Purchased and capitalized software costs	$ 35,000	$ 35,575	1-10 years
Furniture, fixtures and equipment	32,436	29,259	3-10 years
Computer equipment	14,512	14,513	3 years
Leasehold improvements	8,294	15,915	3-10 years
In-process assets	1,926	2,081	
	92,168	97,343	
Less-accumulated depreciation and amortization	(72,853)	(79,826)	
Property and equipment, net	$ 19,315	$ 17,517	

Depreciation and amortization expense related to property and equipment, excluding finance leases, for the years ended December 31, 2021 and 2020 was $6.7 million in both years.

The Company’s property and equipment held under finance leases amount to approximately $0.3 million and $0.9 million, net of accumulated amortization of approximately $3.3 million and $2.3 million, at December 31, 2021 and 2020, respectively. Depreciation and amortization expense related to finance leases for the years ended December 31, 2021 and 2020 was $0.9 million in both years.

6. Goodwill

During 2021 goodwill decreased by $0.1 million and in 2020 increased by $0.1 million due to the impact of foreign currency translation. The Company’s annual goodwill impairment test as of October 1, 2021 was performed for its reporting unit by completing the qualitative assessment to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount. We determined that it was not more likely than not that the fair value of a reporting unit was less than its carrying amount and, therefore, did not result in an impairment as of December 31, 2021.

7. Long Lived Assets

The following table represents geographic information by area (in thousands):

	December 31,	
	2021	2020
Long-lived assets		
United States	$ 57,376	$ 53,096
Europe	18,894	18,426
Canada	1,170	1,725
India	1,074	1,363
Total long-lived assets	$ 78,514	$ 74,610

8. Inventory Financing

Supplies Distributors, an indirect wholly-owned subsidiary of the Company, has a short-term credit facility with Peridot Financing Solutions (as successor to IBM Credit LLC) and its assignees ("IBM Credit Facility") to finance its purchase and distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to$5.5 million, as per the amended agreement. The agreement has no stated maturity date and provides either party the ability to exit the facility following a 90 day notice.

Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, we have classified the outstanding amounts under this facility, which were $3.5 million and $3.6 million as of December 31, 2021 and 2020, respectively, as trade accounts payable in the consolidated balance sheets. As of December 31, 2021, Supplies Distributors had $0.1 million of available credit under this facility. The IBM Credit Facility contains cross default provisions and 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 IBM Credit Facility also contains financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $1.0 million, as per the amended agreement. Borrowings under the IBM Credit Facility accrue interest, after a defined free financing period, at prime rate plus 0.5%, which resulted in a weighted average interest rate of 3.75% for both December 31, 2021 and 2020, respectively. As of December 31, 2021, the Company was in compliance with all financial covenants under the IBM Credit Facility. In the first half of 2022 the IBM Credit Facility was terminated in connection with the transition of our relationship with Ricoh. See Note 17. Subsequent Events.

9. Debt Obligations

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

	December 31,	
	2021	2020
US Credit Agreement:		
Revolving loan	$ —	$ 33,500
Equipment loan	—	8,035
Debt issuance costs	—	(224)
Finance leases	311	1,049
Other	—	120
Total	311	42,480
Less current portion of long-term debt	222	3,411
Long-term debt, less current portion	$ 89	$ 39,069

US Credit Agreement

Until August 25, 2021, we had a credit agreement, which was later amended ("Amended Facility") with Regions Bank and certain other banking parties. The Amended Facility provided revolving loan availability up to $60.0 million, with the ability for an increase of $20.0 million, and had a maturity date of November 1, 2023. Borrowings under the Amended Facility accrued interest at a variable rate based on prime rate or LIBOR, plus an applicable margin. At December 31, 2020 the weighted average interest rate on the revolving loan facility was 2.52%.

On August 25, 2021, the Company used $62.5 million of the LiveArea Transaction proceeds to fully repay and extinguish its Amended Facility. As a result of the full repayment of our Amended Facility, we recognized a $0.4 million loss on extinguishment of debt on the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2021.

10. Stock and Stock Options

Preferred Stock Purchase Rights

On June 8, 2000, the Company's Board of Directors declared a dividend distribution of one preferred stock purchase right (a "Right") for each share of the Company's common stock outstanding on July 6, 2000 and each share of common stock issued thereafter. Each Right entitles the registered shareholders to purchase from the Company one one-thousandth of a share of preferred stock at an exercise price of $65, subject to adjustment. The Rights are not currently exercisable but would become exercisable if certain events occurred relating to a person or group acquiring or attempting to acquire 20 percent or more of the Company's outstanding shares of common stock. The Rights Agreement expires 30 days after the Company's 2022 Annual Meeting unless continuation of the Rights Agreement is approved by the stockholders of the Company at the 2022 Annual Meeting.

Stock Compensation Plans

The Company has an Employee Stock and Incentive Plan (the "Employee Plan"), as amended and restated, under which an aggregate of 10,442,340 shares of common stock have been authorized for issuance. The Employee Plan provides for the granting of incentive awards to directors, executive management, key employees and outside consultants of the Company in a variety of forms of equity-based incentive compensation, such as the award of an option, stock appreciation right, restricted stock award, restricted stock unit, deferred stock unit, among other stock-based awards. The Company has historically issued service-based restricted stock and unit awards, performance-based and market-based stock and unit awards (collectively "Restricted Shares") and stock options. The Company uses newly issued shares of common stock to satisfy awards under the Employee Plan.

The Company issues Restricted Shares to the Company's executives and senior management, pursuant to which such employees are eligible to receive future grants of shares of the Company's stock subject to various vesting and/or performance criteria. The weighted average fair value per share of Restricted Shares granted during the years ended December 31, 2021 and 2020 was $7.11 and $5.45, respectively. The total fair value of Restricted Shares vested under the Employee Plans was $6.4 million and $7.7 million during the years ended December 31, 2021 and 2020, respectively.

The underlying stock certificates for the Restricted Shares that vested December 31, 2021 are expected to be issued during the quarters ended March 31, 2022 and June 30, 2022. The underlying stock certificates for the Restricted Shares that vested December 31, 2020 were issued during the quarters ended March 31, 2021 and June 30, 2021.

Total stock-based compensation expense was $9.4 million and $10.8 million for the years ended December 31, 2021 and 2020, respectively, and was included as a component of selling, general and administrative expenses in the consolidated statements of operations. As of December 31, 2021, there is $1.6 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Employee Plan, which is expected to be recognized over a remaining weighted average period of approximately 0.9 years. This expected cost does not include the impact of any future stock-based compensation awards.

As of December 31, 2021, there were 1,350,048 shares available for future grants under the Employee Plan. Each stock option or stock appreciation right award granted reduces the total shares available for grant by one share, while each award granted other than in the form of a stock option or stock appreciation right reduces the shares available for grant by 1.22 shares.

Stock Options

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

The following tables summarize stock option activity under the Employee Plan:

	Shares	Price Per Share	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding, December 31, 2020	1,120,717	$2.54 - $14.66	$ 6.76		
Granted	7,500	$7.51	$ 7.51		
Exercised	(526,467)	$2.54 - $13.61	$ 5.76		
Canceled	(91,418)	$4.87 - $14.66	$ 10.10		
Outstanding, December 31, 2021	510,332	$2.54 - $14.66	$ 7.20		
Exercisable, December 31, 2021	487,707	$2.54 - $14.66	$ 7.34	3.9	$ 2.7
Exercisable and expected to vest, December 31, 2021	508,070	$2.54 - $14.66	$ 7.21	3.8	$ 2.9

The weighted average fair value per share of options granted during the years ended December 31, 2021 and 2020 was $3.92 and $3.51, respectively. The total intrinsic value of options exercised under the Stock Option Plans was $2.9 million and $0.30 million during the years ended December 31, 2021 and 2020, respectively.

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

	Year Ended December 31,	
	2021	2020
Expected dividend yield	—	—
Expected stock price volatility	57%	56%
Risk-free interest rate	0.7%	0.4%
Expected life of options (years)	6	6

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

Service-Based Restricted Stock and Unit Awards

The Company's service-based restricted stock and unit awards are valued at the quoted market price of the Company's common stock as of the date of grant and vest over a range of two to four years. Shares that do not vest on a scheduled vesting date due to a failure to satisfy vesting or performance criteria are forfeited and do not vest in future periods.

The following table summarizes the service-based restricted stock and unit award activity for the year ended December 31, 2021:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested restricted stock at December 31, 2020	353,059	$ 5.70
Granted	286,469	$ 7.11
Vested	(416,395)	$ 6.55
Canceled	(35,132)	$ 6.93
Unvested restricted stock at December 31, 2021	188,001	$ 6.45

Performance-Based Restricted Stock and Unit Awards

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

The following table summarizes the performance-based restricted stock and unit award activity for the year ended December 31, 2021:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested restricted stock at December 31, 2020	455,323	$ 4.43
Granted	514,962	$ 7.14
Vested	(689,480)	$ 7.08
Canceled	(137,249)	$ 7.13
Unvested restricted stock at December 31, 2021	143,556	$ 6.89

Market-Based Restricted Stock and Unit Awards

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

The following table summarizes the market-based restricted stock and unit award activity for the year ended December 31, 2021:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested restricted stock at December 31, 2020	243,154	$ 6.49
Granted	126,980	$ 6.79
Vested	(191,399)	$ 6.80
Canceled	2,050	$ 5.63
Unvested restricted stock at December 31, 2021	180,785	$ 6.59

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

	Year Ended December 31,	
	2021	2020
Expected dividend yield	—	—
Expected stock price volatility	75.3%	68.2%
Risk-free interest rate	0.3%	0.2%
Expected term (years)	3	3
Weighted average grant date fair value	$7.11	$6.68

Stock Units

Each non-employee Director of the Company's Board of Directors (the "Board") receives a quarterly retainer (the "Retainer"), payable on or about the first day of each quarter, through the issuance of an equity-based award under the Employee Plan in the form of a Deferred Stock Unit (a "DSU"). During 2021 and 2020, the Retainer was $30,000. The number of DSUs is determined by dividing the Retainer by the immediately preceding closing price of the Common Stock on the grant date. Each DSU represents the right to receive an equal number of shares of Common Stock upon the retirement, resignation or termination of service from the Board.

The following table summarizes the DSU activity for the year ended December 31, 2021:

	Shares	Weighted Average Grant Date Fair Value per Share
Unvested deferred stock at December 31, 2020	433,785	$ 6.06
Granted	64,845	$ 6.94
Vested	—	$ —
Unvested deferred stock at December 31, 2021	498,630	$ 6.18

11. Income Taxes

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

	Year Ended December 31,	
	2021	2020
Domestic	$ (9,913)	$ (5,021)
Foreign	(2,195)	189
Total	$ (12,108)	$ (4,832)

A reconciliation of the difference between the expected income tax expense (benefit) from operations at the US federal statutory corporate tax rate of 21% and the Company's effective tax rate is as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Income tax benefit computed at statutory rate	$ (2,433)	$ (1,015)
Items not deductible for tax purposes	502	178
Foreign rate differential	26	188
Change in valuation allowance	(1,341)	1,647
State taxes	823	140
Taxes on foreign earnings	894	—
Losses not benefited for tax	2,608	—
Other	451	202
Provision for income taxes	$ 1,530	$ 1,340

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

	December 31,	
	2021	2020
Current		
Domestic	$ (352)	$ —
State	700	480
Foreign	180	769
Total Current	528	1,249
Deferred		
Domestic	134	—
State	842	(42)
Foreign	26	133
Total Deferred	1,002	91
Provision for income taxes	$ 1,530	$ 1,340

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

	Year Ended December 31,	
	2021	2020
Deferred tax assets:		
Allowance for doubtful accounts	$ 260	$ 182
Inventory reserve	28	23
Property and equipment	—	1,802
Accrued expenses	1,914	705
Deferred revenue	902	269
State tax - deferred	482	946
Net operating loss carryforwards	2,299	14,328
Nonqualified stock options	2,264	2,371
Foreign tax credit carryforwards	1,573	—
Other	515	502
	10,237	21,128
Less - Valuation allowance	5,957	20,045
Total deferred tax assets	4,280	1,083
Deferred tax liabilities:		
Property and equipment	(1,359)	—
Goodwill	(4,222)	(5,451)
Deferred tax liability on foreign earnings	(894)	—
Total deferred tax liabilities	(6,475)	(5,451)
Deferred tax liabilities, net	$ (2,195)	$ (4,368)

We believe that we have not established a sufficient history of earnings, on a stand-alone basis, to support the more likely than not realization of certain deferred tax assets in excess of existing taxable temporary differences. A valuation allowance has been provided for the majority of these net deferred tax assets as of December 31, 2021 and 2020. The remaining net deferred tax assets at both December 31, 2021 and 2020 primarily relate to the Company's European operations and certain state tax benefits and are included in other non-current assets on the consolidated balance sheets. The remaining net deferred tax liabilities at both December 31, 2021 and 2020 primarily relate to goodwill related from a prior acquisition are included in other long-term liabilities on the consolidated balance sheets. The Company has state and foreign net operating loss carryforwards of $6.1 million, and $10.5 million that expire at various dates from 2021 through 2036. The Company also has foreign tax credit carryforwards of $1.6 million that will expire in 2031.

For federal income tax purposes, tax years that remain subject to examination include years 2018 through 2021. However, the utilization of net operating loss carryforwards that arose prior to 2016 remains subject to examination through the years such carryforwards are utilized. For Europe, tax years that remain subject to examination include years 2017 to 2021. For Canada, tax years that remain subject to examination include years 2014 to 2021, depending on the subsidiary. For state income tax purposes, the tax years that remain subject to examination include years 2017 to 2021, depending upon the jurisdiction in which the Company files tax returns. The Company and its subsidiaries has one income tax return in the process of examination. The Company does not expect these examinations will result in material unrecognized tax expense.

At both December 31, 2021 and 2020, we had immaterial amounts of accrued interest and penalties related to unrecognized tax benefits.

Gross unrecognized tax benefits, all of which, if recognized, would affect our effective tax rate were $0.2 million as of December 31, 2021, all of which arose in the current year. We do not believe that it is reasonably possible that our unrecognized tax benefits will significantly change in the next twelve months.

On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was enacted. The Tax Act imposes a mandatory transition tax on accumulated foreign earnings as of December 31, 2017. Effective January 1, 2018, the Tax Act creates a new territorial tax system in which we recognize the tax impact of including certain foreign earnings in U.S. taxable income as a period cost. For the year ended December 31, 2021, we do not anticipate incurring a global intangible low-taxed income or GILTI liability; however, to the extent that we incur expense under the GILTI provisions, we will treat it as a component of income tax expense in the period incurred. As of December 31, 2021, there were no undistributed earnings of certain foreign subsidiaries to be permanently reinvested. Accordingly, no provision for foreign or state income taxes associated with these foreign subsidiaries has been made. We have recorded deferred income taxes related to the earnings that are not indefinitely reinvested.

12. Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the reporting period. Diluted earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted-average number of common shares and common stock equivalents outstanding for the reporting period. In periods when we recognize a net loss from continuing operations, we exclude the impact of outstanding common stock equivalents from the diluted loss per share calculation as their inclusion would have an antidilutive effect. As of December 31, 2021 and 2020, we had outstanding common stock equivalents of approximately 2.0 million and 3.6 million, respectively, that have been excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive.

13. Leases

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

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

	Year Ended December 31,	
	2021	**2020**
Lease costs:		
Finance lease costs:		
Amortization of right-of-use assets	$ 875	$ 919
Interest on lease liabilities	37	91
Operating lease costs	10,002	9,687
Variable lease costs	5,572	3,277
Short-term lease costs	1,625	1,302
Total lease costs	$ 18,111	$ 15,276

We had $0.3 million and $0.9 million of finance lease assets that are reported in property and equipment, net as of December 31, 2021 and 2020, respectively. As of December 31, 2021, our weighted-average remaining lease term relating to our operating leases is 4.9 years, with a weighted-average discount of 5.6%. As of December 31, 2020, our weighted-average remaining lease term relating to our operating leases was 5.3 years, with a weighted-average discount of 5.8%. As of December 31, 2021, our weighted-average remaining lease term relating to our finance leases is 1.6 years, with a weighted-average discount of 4.3%. As of December 31, 2020, our weighted-average remaining lease term relating to our finance leases was 1.6 years, with a weighted-average discount of 5.4%. Our leases have remaining lease terms of up to 8.5 years, some of which include options to extend the leases for up to 10 years and some of which include options to terminate the leases within 1 year.

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

	December 31, 2021	
	Operating Leases	Finance Leases
2022	$ 11,504	$ 229
2023	10,130	68
2024	8,016	22
2025	6,552	—
2026	5,180	—
Thereafter	5,297	—
Total lease payments	46,679	319
Less interest	(6,182)	(8)
Total lease obligations	$ 40,497	$ 311

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

	Year Ended December 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows arising from operating leases	$ 11,446	$ 10,803
Operating cash flows arising from finance leases	$ 37	$ 90
Financing cash flows arising from finance leases	$ 871	$ 1,173
Right-of-use assets obtained in exchange for operating lease liabilities	$ 16,811	$ 6,422
Right-of-use assets obtained in exchange for finance lease liabilities	$ 114	$ 19

As of December 31, 2021, there was one operating lease commitment that had not yet commenced of approximately $8.4 million that is contracted to begin in the second half of 2022 with lease terms of 5 years. There were no additional operating or financing leases that have not yet commenced.

14. Commitments and Contingencies

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

15. Employee Savings Plan

The Company has a defined contribution employee savings plan under Section 401(k) of the Internal Revenue Code. Substantially all full-time and part-time US employees are eligible to participate in the plan. The Company, at its discretion, may match employee contributions to the plan and also make an additional matching contribution in the form of profit sharing in recognition of the Company’s performance. The employer matching contributions are subject to a three-year vesting schedule based on the participant’s years of service with us. Our employees in Europe and Canada also have defined contribution plans. The Company contributed approximately $0.5 million for each of the years ended December 31, 2021 and 2020 to match an approved percentage of employee contributions.

16. Related Party Transactions

In December 2020, on behalf of a client, the Company entered into an agreement with Pilot Freight Services ("Pilot") under which Pilot provides the Company various freight services. David Beatson, a member of our Board of Directors is also on the Board of Directors of Pilot and holds less than 1% of the outstanding shares in Pilot. Pilot is a portfolio company of ATL Partners, LLC, where Mr. Beatson serves on the Executive Board and is a shareholder of its two funds (less than 1% holdings of each).

We recognized $1.1 million of related party cost of revenues the year ended December 31, 2021 which is recorded in cost of pass-through revenue in the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2021. As of December 31, 2021, we had a trade accounts payable balance of $0.2 million to Pilot.

17. Subsequent Events

Product revenue and the related inventory are dependent on Supplies Distributors' distributor agreements with Ricoh. In March 2022 product revenue model was discontinued as a result of a restructure of Ricoh. In the first half of 2022, the Ricoh distributor agreement was terminated and as a result, the Company does not expect to have inventory following the termination of this agreement.

The IBM Credit Facility was subsequently terminated in connection with the transition of our relationship with Ricoh. As a result, the lender waived all compliance requirements with restricted covenants for the quarters ended December 31, 2021 and March 31, 2022.

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

None.

Item 9A. ***Controls And Procedures***

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO” and together with the CEO, the “Certifying Officers”), evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)). Disclosure controls and procedures are controls and other procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Based upon this evaluation, and the above criteria, our CEO and CFO concluded that the Company’s disclosure controls and procedures were not effective as of December 31, 2021 due to our untimely filing of this Form 10-K for the year ended December 31, 2021.

Management’s Report on Internal Control Over Financial Reporting

Our management, under the supervision of our board of directors, is responsible for establishing and maintaining adequate “internal control over financial reporting,” as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles,

and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

Notwithstanding the previously identified material weaknesses described below, our management, including our CEO and CFO, concluded that the consolidated financial statements in this Form 10-K for the year ended December 31, 2021 fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented, in conformity with US generally accepted accounting principles ("US GAAP"). However, because the material weaknesses create a reasonable possibility that a material misstatement to our consolidated financial statements may not have been prevented or detected on a timely basis, the Company's management concluded that at December 31, 2021, the Company's internal control over financial reporting was ineffective.

Previously Reported Material Weakness in Internal Control over Financial Reporting

As previously described in Part II—Item 9A – Controls and Procedures of our Form 10-K for the year ended December 31, 2020, our management concluded that the Company did not design, implement, and operate effective process-level control activities related to order-to-cash process (specifically controls over revenue recognition pertaining to client invoicing) resulting in deficiencies in our process-level control activities.

As previously described in Part I – Item 4 – Controls and Procedures of our Quarterly Report on Form 10-Q for the period ended June 30, 2021:

We identified a material weakness in our internal control over financial reporting relating to accounting for unusual transactions. Specifically, deficiencies were identified relating to the financial reporting requirements triggered by the LiveArea Transaction, including the required financial statement presentation of discontinued operations.

We further identified deficiencies in various aspects of our income tax controls related to the preparation and review of our income tax provision, including the tax complexities triggered by the disposition of LiveArea in multiple jurisdictions as part of the LiveArea Transaction, which management concluded such deficiencies aggregated to a material weakness.

In addition, we identified a material weakness in internal control over financial reporting related to ineffective information technology general controls ("ITGCs") in the areas of user access and segregation of duties related to administration of certain information technology ("IT") systems that support the Company's financial reporting processes. While progress has been made towards remediation, control deficiencies applicable to execution of certain access controls were identified during year-end testing. As a result, Management concludes the previously identified material weakness related to ITGCs remains as of December 31, 2021.

We have not remediated the material weaknesses described above as of the date of this Annual Report on Form 10-K for the year ended December 31, 2021.

Management's Plan for Remediation

In response to these material weaknesses, management, with oversight of the Audit Committee of the Board of Directors, has identified and begun to implement steps to remediate the material weaknesses. Specifically:

- The Company has prepared training documentation and held training meetings with invoice preparers and reviewers, and designed certain mitigating controls which include monthly analytical review procedures to ensure accuracy of client invoices. Although sufficient evidence does not exist to conclude that the material weakness has been remediated at December 31, 2021, management believes significant progress has been made in 2021 and the implemented mitigating controls will remediate this material weakness in 2022.

- The Company has hired additional accounting personnel (including temporary personnel with requisite accounting and reporting experience) to fill needed roles and assist in our accounting and financial reporting. The Company has augmented its accounting and reporting resources, improved controls over financial reporting related to unusual transactions and significantly reduced the untimeliness of its reports filed with the SEC. Management believes this material weakness will be remediated in 2022.

- The Company has engaged a third-party advisory accounting firm and hired an additional temporary resource with requisite tax experience to fill needed roles and assist in proper accounting and financial reporting for income taxes. Management believes the Company has made significant progress improving controls related to preparation and review of our income tax provision, and with passage of adequate time will remediate the material weakness in 2022.

- Regarding the ITCG deficiencies, the Company has identified and implemented certain mitigating controls in 2021. Our remediation plan with respect to the ITGC deficiencies includes training of personnel tasked with reviewing IT system user access and segregation of duties risks. In addition, the Company will work with its third-party advisory firm to strengthen the design, execution and documentation of certain controls over user access and segregation of duties of certain IT systems. Management believes this material weakness will be remediated in 2022.

The Company continues to implement certain remediation actions and continues to test and evaluate the elements of the remediation plan. Other potential remediation activities that may be considered include further training of employees and the design and implementation of additional mitigating controls.

We are committed to ensuring that our internal controls over financial reporting are designed and operating effectively. The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Attestation Report of the Registered Public Accounting Firm

BDO USA, LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2021 and has expressed an adverse report on the operating effectiveness of our internal control over financial reporting, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

Other than discussed above, during the quarter ended on December 31, 2021, 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.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

PFSweb, Inc.

Allen, TX

Opinion on Internal Control over Financial Reporting

We have audited PFSweb, Inc.'s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as "the financial statements") and our report dated May 9, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weaknesses regarding management's failure to design and maintain process-level control activities related to order-to-cash process (specifically controls over revenue recognition pertaining to client invoicing), accounting for significant unusual transactions (specifically the sale of LiveArea), preparation and review of the income tax provision, and ineffective information technology general controls, have been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2021 financial statements, and this report does not affect our report dated May 9, 2022 on those financial statements.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ BDO USA, LLP

Dallas, Texas
May 9, 2022

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors and Executive Officers and Corporate Governance***

Board of Directors

The following sets forth for each member of the Board of Directors, such person's name, age, principal occupation or employment during at least the past five years, the name of the corporation or other organization, if any, in which such occupation or employment is carried on and the period during which such person has served as a director of the Company. The following information also identifies and describes the key experience, qualifications and skills our directors bring to the Board that are important in light of our business and structure. The directors' experiences, qualifications and skills that the Board considered as qualifications for the member's inclusion on the Board are included in their individual biographies.

David I. Beatson, age 74, has served as a non-employee Director since November 2000. Mr. Beatson is Chief Executive Officer of Ascent Advisors, LLC a consulting firm he founded in 2000. The firm provides strategic direction to firms in the logistics and supply chain industry as well as merger and acquisition advice for private equity firms investing in such industry. Mr. Beatson is a recognized leader in the field of transportation, logistics and supply chain management having served as Chairman and CEO of several leading companies in the industry. From 2007 until 2012 he was CEO of Globalware Solutions, a global supply chain management solution provider with facilities in North America, Asia and Europe. From July 2003 to April 2005, Mr. Beatson served as Regional CEO North America and Member of the Executive Board of Panalpina, Inc., a leading provider of international air and sea freight forwarding, customs brokerage and third party logistics services. From July 1998 to June 2000, Mr. Beatson served as Chairman, President and CEO of Circle International Group, Inc. (Nasdaq: CRCL), a global transportation and logistics company. From 1991 to June 1994, Mr. Beatson served as vice-president of sales and marketing and then from June 1994 until July 1998 as president and CEO of Emery Worldwide, a global transportation and logistics company. Prior to 1991, Mr. Beatson held several management positions in the logistics and transportation industry, including American Airlines and CF Airfreight. He also served on the board of directors of Descartes Systems (Nasdaq: DSGX) through May 2020, and currently serves on the board of directors of Pilot Freight Services since October 2019. Mr Beatson continues to serve on the Executive Board of ATL Partners and serves on the board of three privately held companies. Mr. Beatson received his B.S. degree in Business Administration from The Ohio State University and his M.B.A. from the University of Cincinnati. The Board of Directors believes the characteristics that qualify Mr. Beatson for the Board include his long-term experience in the transportation, logistics and supply chain management industry, leadership experience and judgment and knowledge of the Company's business.

Robert Frankfurt, age 56, was appointed as a non-employee Director in March 2019, in accordance with the provisions of a settlement agreement between the Company and Arnaud Ajdler, Engine Capital, L.P. and certain of its affiliates. Mr. Frankfurt is the Founder of Living Fund, a venture capital fund focused on investing in and building early-stage lifestyle-based health and wellness businesses that seek to reverse and prevent chronic illness while reducing pills and procedures. Prior to founding Living Fund, Mr. Frankfurt was the President and Founder of Myca Partners, a hedge fund focused on small cap investments. Prior to Myca Partners, Mr. Frankfurt spent more than a decade as a Partner and senior portfolio manager at various investment partnerships including Steel Partners and Sandell Asset Management. Mr. Frankfurt began his career as a financial analyst in the mergers and acquisitions department of Bear, Stearns & Co. and later joined Hambro Bank America as an associate focused on merger and acquisition and venture capital transactions. Mr. Frankfurt graduated from the Wharton School of Business in 1987 with a B.S. in Economics and he received his MBA at the Anderson Graduate School of Management at UCLA in 1995 where he was a Venture Capital Fellow and served as Alumni Class President. The Board of Directors believes the characteristics that qualify Mr. Frankfurt for the Board include his financial and management experience, strategic consulting experience, leadership experience and judgment.

G. Mercedes De Luca, age 64, was appointed as a non-employee Director in May 2019. Ms. De Luca has been the Chief Information Officer for Pebble Beach Company since May 2017. Prior to Pebble Beach, Ms. De Luca held several executive and senior level positions at notable companies, including at Basecamp from October 2015 through October 2016 as their Chief Operating Officer and Sears Holdings from May 2011 through August 2014 as their Vice President and General Manager of eCommerce. Previously, Ms. De Luca was CEO of MyShape, Inc. and held executive positions with Yahoo! and Interwoven. In these various roles, she led multiple digital transformation efforts that introduced innovative technology solutions to meet strategic goals and drive profitable growth. Ms. De Luca holds a Master of Business Administration from Santa Clara University and a Bachelor of Science in Electrical Engineering from Columbia University. She currently serves on the board of directors for INETCO, a retail banking and payment processing software solutions provider. The Board of Directors believes the characteristics that qualify Ms. De Luca for the Board include her extensive experience as a technology executive and leader, expertise in information technology, leadership experience and judgment.

Monica Luechtefeld, age 73, has served as a non-employee Director of the Company since April 2014, and was elected as the Chairperson of the Board of Directors effective as of June 30, 2020. Ms. Luechtefeld is a recognized leader in eCommerce & Internet Retailing. She founded her own consultancy firm in 2012 to provide advisory services in eCommerce strategy as well as

online marketing and emerging digital media. From 1993 to 2012, Ms. Luechtefeld held various executive roles within Office Depot, Inc., a Fortune 200 company. She was Executive Vice President eCommerce and Direct Marketing and served as Executive Vice President of European eCommerce. Her previous leadership positions included Executive Vice President Supply Chain & Distribution, and Executive Vice President of Global Information Technology, as well as marketing, sales, and business development roles. Ms. Luechtefeld is the Former Chair of the Board of Trustees for the March of Dimes. She also served as a Board Member of Irish Angels, an angel investment group primarily focused on early-stage technology companies and currently serves of the Board of Vitalize Ventures VC, an investment fund focused on the future of work. Ms. Luechtefeld received her B.S. degree from Mount Saint Mary's University, Cum Laude, and her M.B.A. from the University of Notre Dame, Magna Cum Laude. She also received an honorary doctorate degree from Mount Saint Mary's University. The Board of Directors believes the characteristics that qualify Ms. Luechtefeld for the Board include her business and leadership experience and judgment and her broad eCommerce industry knowledge.

Shinichi Nagakura, age 58, was appointed as a non-employee Director of the Company in May 2013 in accordance with the provisions of a Securities Purchase Agreement between the Company and transcosmos inc. ("TCI"), a leading Japanese business process outsourcing company. Mr. Nagakura has been an officer of TCI and/or its affiliates for the last 16 years, including serving as a Director of TCI between 2006 and 2019, and has experience in investments, business development and sales and marketing in the US and Japan. Prior to TCI, Mr. Nagakura served for ten years with Recruit Holdings Co., Ltd., which provides integrated human resource services. Mr. Nagakura also serves on the Board of Directors of Merlin Information Systems, Ltd., an international provider of high quality, personalized IT and customer support solutions based in the UK, and InfraCommerce Inc., one stop eCommerce service company in Brazil. Mr. Nagakura also serves as a director with Become Japan Holdings, Inc., Ecom Latam Holdings, Inc., Infracommerce Negocios e Solucoes em Internet Ltda, transcosmos Information Systems Ltd. and Digital Operative Inc., a private corporation. He graduated from Sophia University, Tokyo, Japan with a B.A. in International Studies in 1986. The Board of Directors believes the characteristics that qualify Mr. Nagakura for the Board include his extensive private equity and investment experience and management skills associated with his prior executive level experience within the TCI organization and prior human resource experience.

Benjamin Rosenzweig, age 37, was appointed as a non-employee Director of the Company in May 2013 in accordance with the provisions of a settlement agreement between the Company and Privet Fund, L.P. and its affiliates ("Privet"). Mr. Rosenzweig is currently a partner at Privet Fund Management LLC. Prior to joining Privet in September 2008, Mr. Rosenzweig served as an investment banking analyst in the corporate finance group of Alvarez and Marsal from June 2007 until May 2008, where he completed multiple distressed mergers and acquisitions, restructurings, capital formation transactions and similar financial advisory engagements across several industries. Mr. Rosenzweig is currently the Executive Chairman of the board of directors of Synalloy Corp. (NASDAQ:SYNL), a member of the board of directors of Bed Bath & Beyond (NASDAQ:BBBY), Hardinge, Inc., (private company, formerly NASDAQ:HDNG) and Potbelly Corporation (NASDAQ: PBPB). Mr. Rosenzweig also served as a Director of Cicero, Inc. (OTC:CICN) from 2017 until 2020, Startek, Inc. (NYSE: SRT) from 2011 through 2018, and RELM Wireless Corporation (NYSE MKT: RWC) from 2013 through 2015. Mr. Rosenzweig graduated magna cum laude from Emory University with a Bachelor of Business Administration degree in Finance and a second major in Economics. The Board of Directors believes the characteristics that qualify Mr. Rosenzweig for the Board include his corporate capital and finance experience, leadership experience and judgment.

Michael C. Willoughby, age 58, has served as Chief Executive Officer and a Director since March 2013, as President of PFSweb, Inc. since September 2010 and as Chief Information Officer of the Company from October 2001 until April 2016. Mr. Willoughby has previously served as President of Priority Fulfillment Services, a subsidiary of the Company, from February 2006 to September 2010. From 1999 to 2001, Mr. Willoughby served the Company as Vice President of eCommerce. Prior to joining the Company, Mr. Willoughby served as President and Chief Executive Officer of Design Technologies, Inc., an eCommerce software development firm from 1994 to 1999. Prior to founding Design Technologies, Inc., Mr. Willoughby served as President and Chief Executive Officer of Integration Services, Inc., an IT consulting services company. Mr. Willoughby received his Bachelor of Business Administration degree in Information Systems from Abilene Christian University. The Board of Directors believes the characteristics that qualify Mr. Willoughby for the Board include his long-term experience in the eCommerce industry, expertise in information technology, leadership experience and judgment and extensive knowledge of the Company's business.

Information About Our Executive Officers

In addition to Michael C. Willoughby named above, the following are the names, ages and positions of the other executive officers of the Company:

Thomas J. Madden, age 60, has served as Executive Vice President, Chief Financial Officer of the Company since its inception in 1999 and Chief Accounting Officer until October 2019. Mr. Madden previously served as Chief Financial Officer of Daisytek International Corporation ("Daisytek"), former parent corporation of the Company, from 1997 to 2000, as Vice President — Finance, Treasurer and as Chief Accounting Officer of Daisytek from 1994 to 2000 and as Controller of Daisytek

from 1992 to 1994. From 1983 to 1992, Mr. Madden served in various capacities with Arthur Andersen & Co., S.C., including financial consulting and audit manager. Mr Madden received his Bachelor of Science degree in Accounting from Gies College of Business at the University of Illinois Urbana-Champaign.

R. Zach Thomann, age 40, was named as Chief Operating Officer of the Company as of January 2022 and President of Priority Fulfillment Services, Inc., a wholly-owned subsidiary of the Company, as of March 2021 and continues to serve as Executive Vice President of the Company. Mr. Thomann is responsible for strategic direction, operation and management of all PFS activities, including distribution, contact center, client financial services, and omnichannel operations services provided on behalf of PFSweb's clients. Mr. Thomann served as Executive Vice President and General Manager of the Company's PFS business unit from 2018 through 2021, Senior Vice President and General Manager of the Company's PFS business unit from 2017-2018, Senior Vice President and General Manager of Omnichannel Operations from 2016 to 2017, Vice President and General Manager of Omnichannel Operations from 2015 to 2016, Vice President of Program Management from 2013 to 2015, Director of Program Management from 2012 to 2013 and held various program management and client implementation roles from 2003 to 2012. Mr. Thomann received his Master of Business Administration from Naveen Jindal School of Management, UT Dallas and his Bachelor of Science, Corporate Communications from the University of Texas at Austin.

Meetings and Committees of the Board

The Board of Directors met a total of twelve times during the 2021 calendar year. The Board of Directors has determined that, other than Mr. Willoughby, each director is independent within the meaning of applicable SEC rules and Nasdaq listing standards. The independent directors are able to and generally meet in executive session without the Company's management at each regularly scheduled quarterly Board meeting.

The Board of Directors does not have a policy regarding director attendance at the annual meeting of stockholders. The Company provides notice of the meeting to the Board of Directors. No current independent director attended the 2021 annual meeting.

The Board of Directors currently has a Nominating, Audit, Compensation and Technology and Cybersecurity Committee, each of which is a standing committee of the Board of Directors.

The Nominating Committee is responsible for identifying and evaluating individuals qualified to become Board members and recommending to the Board candidates to stand for election or re-election as directors. The Committee will consider candidates at the recommendation of existing Board members, Company management, search firms or other consultants, or stockholders. Stockholders wishing to recommend director candidates to the Board may do so by writing to the Committee in care of the Corporate Secretary at the Company's executive office, 505 Millennium Drive, Allen, TX 75013. At a minimum, director candidates should have demonstrated achievement in their particular field of endeavor, significant business or other management experience that would be of value to the Company, integrity and high ethical standards, good communication and leadership skills, and the ability and willingness to commit adequate time and attention to carry out their Board duties effectively. The Committee will evaluate candidates through background and reference checks, interviews and an analysis of each candidate's qualifications and attributes in light of the current composition of the Board and the Company's leadership needs at the time. The Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, but the Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills, experience and expertise to oversee the Company's business. Candidates recommended by stockholders will be evaluated with the same standards and process as candidates identified through other individuals or methods. As of January 1, 2021, the members of the Nominating Committee were Mr. Rosenzweig (who serves as the Chairperson), Mr. Nagakura and Ms. Luechtefeld, each of whom has been determined to be independent as discussed above. The Nominating Committee has adopted a charter which is available on the Company's website at https://ir.pfsweb.com/corporate-governance (the contents of the website are not incorporated in this Proxy Statement by reference). The Nominating Committee met one time during the 2021 calendar year.

The Audit Committee is established for the purpose of overseeing the Company's accounting and financial reporting processes and audits of the Company's financial statements. The Audit Committee is established to assist the Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to its stockholders. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of any independent auditor employed by the Company (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company. The Company's auditors report directly to the Audit Committee.

The Audit Committee is currently comprised of three directors, Mr. Beatson (who serves as Chairperson), Mr. Frankfurt and Ms. Luechtefeld, each of whom has been determined by the Board of Directors to be independent as discussed above, and is able to read and understand fundamental financial statements, including the Company's balance sheet, statement of operations and

comprehensive income (loss) and statement of cash flows. The Board of Directors has determined that, based on his relevant experience as described above, Mr. Beatson is qualified as the audit committee financial expert within the meaning of applicable SEC regulations and has the requisite financial sophistication required by the Nasdaq listing standards. The Audit Committee met a total of eleven times during the 2021 calendar year. The Committee has adopted a written amended and restated audit committee charter setting out the audit-related functions of the Audit Committee, and the Committee reviews and reassesses the adequacy of the charter on an annual basis. A copy of the charter is available on the Company's website at https://ir.pfsweb.com/corporate-governance.

The Compensation Committee approves, or in some cases recommends, to the Board, remuneration and compensation arrangements involving the Company's executive officers and other key employees. The current members of the Compensation Committee are Ms. De Luca (who serves as Chairperson), Mr. Beatson, and Mr. Rosenzweig, each of whom has been determined by the Board of Directors to be independent as discussed above. The Compensation Committee also serves as the Committee which administers the Company's 2020 Stock and Incentive Plan. The Compensation Committee has adopted a charter which is available on the Company's website at https://ir.pfsweb.com/corporate-governance. The Compensation Committee met four times during the 2021 calendar year.

The Technology and Cybersecurity Committee is responsible for review and oversight of technology-based issues. The Technology and Cybersecurity Committee is comprised of three directors. The current members of the Technology and Cybersecurity Committee were Ms. Luechtefeld (who serves as Chairperson), Ms. De Luca and Mr. Frankfurt. The Technology and Cybersecurity Committee has adopted a charter which is available on the Company's website at https://ir.pfsweb.com/corporate-governance. The Technology and Cybersecurity Committee met four times during the 2021 calendar year.

During the 2021 calendar year, no current director or director nominee attended fewer than 75% in the aggregate of all meetings of the Board and the committees upon which such director served and which were held during the period of time that such person served on the Board or such committee.

Communicating with the Board of Directors

Stockholders wishing to communicate with one or more Directors or the Board as a whole may do so in a writing addressed to the Director(s) or the Board and sent to the Corporate Secretary, PFSweb, Inc., 505 Millennium Drive, Allen, TX 75013.

Code of Ethics

The Board has approved a code of business conduct and ethics in accordance with rules of the SEC and Nasdaq listing standards applicable to all directors, officers and employees, including the chief executive officer, senior financial officers and the principal accounting officer. The code is intended to provide guidance to directors and management to assure compliance with law and promote ethical behavior. Copies of the Company's code of business conduct and ethics may be found on the Company's website at https://ir.pfsweb.com/corporate-governance, along with any amendments thereto or waivers of its requirements.

Board Leadership Structure

The Company has separated the roles of Chief Executive Officer and Chairman in order to permit the Chief Executive Officer to focus his efforts on maintaining and improving the Company's operations. In addition, to assure effective independent oversight of the Company management, all of the other Board members are currently independent directors who may meet in executive session without management present. The Board of Directors otherwise has the authority to determine the leadership structure of the Company at any given time. Each committee of the Board is comprised entirely of independent directors. The Company's Bylaws further permit the appointment of a lead independent director by the other independent directors. The lead director is authorized to prepare the agendas for executive sessions of the independent directors and chair those sessions, facilitate communications between the Chairman and other members of the Board, and act as a liaison to shareholders who request direct communication with the Board. Ms. Luechtefeld serves as Chairperson of the Board and lead director effective since June 30, 2020.

Risk Management

Risk is inherent with every business, and we believe that how well a business manages risk can ultimately determine its success. We face a number of risks more fully described in our annual and quarterly filings with the SEC, including risks relating to dependence on clients and suppliers, competition, cybersecurity and data breaches, product development, credit and liquidity, acquisitions and foreign expansion and other business risks. Management is responsible for the day-to-day management of risks we face, while our Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. The Board of Directors, together with its committees, provides company-wide oversight of our management and handling of risk. The Technology and Cybersecurity Committee has primary responsibility for information technology and cyber risks and efforts taken by the Company to mitigate such risks. At meetings of the Board of Directors and its committees, directors receive regular updates from

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management regarding risk management. Outside of formal meetings, the Board, its committees and individual Board members have regular access to the executive officers of the Company and are often consulted by management in respect of Company operations.

Item 11. ***Executive Compensation***

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation paid or accrued by the Company to its Chief Executive Officer, Chief Financial Officer and most highly compensated executive officers (other than the CEO and CFO) during 2021 (the "Named Executive Officers") for services rendered to the Company during the two fiscal years ended December 31, 2021:

	Year	Salary (1)	Bonus (2)	Stock Awards (3)	Non-Equity Incentive Plan Compensation (4)	All Other Compensation (5)	
Michael C. Willoughby	2021	$ 530,000	$ 156,250	$ 1,148,084	$ —	$ 13,047	$
Chief Executive Officer and	2020	$ 557,837	$ —	$ 2,558,440	$ —	$ 5,155	$
President							
Thomas J. Madden	2021	$ 382,000	$ 87,500	$ 589,000	$ —	$ 13,890	$
Executive Vice President -	2020	$ 403,091	$ —	$ 1,236,808	$ —	$ 6,008	$
Chief Financial Officer							
R. Zach Thomann (6)	2021	$ 386,538	$ 31,250	$ 376,765	$ 102,668	$ 8,242	$
Executive Vice President and							
President - PFS Operations							
James Butler (7)	2021	$ 402,197	$ 952,538	$ 113,511	$ 125,000	$ 4,633	$
Executive Vice President and	2020	$ 474,760	$ —	$ 1,917,509	$ 83,210	$ 2,649	$
President - LiveArea							

(1) Salary represents base salary earnings. While annual base salaries for both the years ended December 31, 2021 and 2020 were $530,000 for Mr. Willoughby and $382,000 for Mr. Madden, the variances in salary amounts above reflect timing of base salary adjustments and the timing of payments made to such executives under the Company's bi-weekly payroll processing. During the year ended December 31, 2021 Mr. Thomann received a base salary of $375,000 from January 2021 through March 22, 2021 and a base salary of $390,000 for the remainder of the fiscal year. Mr. Butler received a base salary of $450,000 from January 2021 through March 22, 2021 and a base salary of $500,000 thereafter through the termination of his employment with the Company. The variances in Mr. Thomann and Mr. Butler's base salary amounts above reflect timing of base salary adjustments and the timing of payments made to executives under the Company's bi-weekly payroll processing.

(2) Represents LiveArea Transaction bonuses earned.

(3) Represents issuance of Performance Share Awards ("Performance Shares") and Restricted Stock Unit Awards ("RSUs" and together with Performance Shares, the "Awards") under the Company's 2020 Stock and Incentive Plan, as amended and restated (the "Plan"). Performance Shares are subject to three-year vesting and certain additional criteria, depending upon Award grant, including continued employment, the comparative performance (on an annual and cumulative basis) of the Company's common stock on Nasdaq as compared to the Russell Micro Cap Index and/or achievement of certain Company or business unit performance goals. The amounts reported in this column represent the grant date fair value for these Awards as calculated in accordance with Accounting Standards Codification Topic 718. The assumptions made in calculating the grant date fair value amounts for the Awards issued in the year ended December 31, 2021 are summarized in Note 10 in Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K. At the maximum Awards shares, these values for Mr. Willoughby would be: 2021: $1,342,303; 2020: $3,079,292; for Mr. Madden would be: 2021: $708,953; 2020: $1,506,707; for Mr. Thomann would be: 2021: $440,498; and for Mr. Butler would be 2021: $170,267; 2020: $2,334,011. The values for the Awards shares included in this column that were subsequently forfeited were as follows: Mr. Willoughby: $73,804 (2021) and $18,080 (2020); Mr. Madden: $45,582 (2021) and $8,315 (2020): Mr. Thomann: $24,219 (2021); and Mr. Butler: $0 (2021) and $0 (2020). The amounts in this column do not necessarily correspond to the actual economic value that may be realized by the Named Executive Officers from the Awards.

(4) Represents performance-based cash awards earned under the Plan.

(5) Represents amounts paid in respect of life insurance premiums and Company paid healthcare premiums.
(6) Mr. Thomann first became a Named Executive Officer for the 2021 fiscal year and, accordingly, no compensation information with respect to Mr. Thomann for 2020 is included.
(7) As a result of the LiveArea Transaction, Mr. Butler was no longer an employee of PFSweb on December 31, 2021.

Salary and Other Benefits

We provide our Named Executive Officers and other employees with a base salary as a component of compensation for services rendered during the year. Additionally, they are provided a variable compensation package that is comprised of short and long term incentive pay. Short-term incentives can be comprised of cash, service-based stock awards, performance-based stock awards or market-based stock awards. Executive officers are eligible to participate in our 401(k) plan and other benefit programs.

Say-on Pay Vote

Our stockholders have chosen to approve the compensation of Named Executive Officers Annually. As such, at each of our annual meetings, a non-binding, advisory resolution approving the compensation paid to our Named Executive Officers, as disclosed in our proxy statement or on Form 10-K/A for each such annual meeting, has been approved by more than a majority of our stockholders. In designing an executive compensation program for each year, the Compensation Committee considered the support previously received by the Company's stockholders for its historical compensation practices and has used consistent methodologies and practices for making its compensation decisions.

OUTSTANDING EQUITY AWARDS AT 2021 FISCAL YEAR END

The following table sets forth the number of unexercised options and equity incentive plan awards for each Named Executive Officer outstanding as of December 31, 2021.

		Option Awards				Stock Awards	
Named Executive Officer	Grant Date	Number of Securities Underlying Unexercised Options (# Exercisable)	Number of Securities Underlying Unexercised Options (# Unexercisable)	Option Exercise Price ($)	Option Expiration Date	Equity incentive plan awards: Number of unearned shares that have not vested (#) (1)	Equity incentive plan awar Market or payout value of unearn shares that have not vested ($) (
Michael C. Willoughby	7/1/2020	—	—	$ —		54,360	$ 700,
	4/15/2021	—	—	$ —		102,710	$ 1,322,
Thomas J. Madden	7/1/2020	—	—	$ —		24,981	$ 321,
	4/14/2021	—	—	$ —		47,200	$ 607,
R. Zach Thomann	9/10/2013	2,500	—	$ 5.61	9/9/2023	—	$
	7/1/2020	—	—	$ —		17,150	$ 220,
	4/15/2021	—	—	$ —		33,700	$ 434,
James Butler (3)		—	—	$ —		—	$

(1) Awards consist of Performance Share Awards ("Performance Shares") and Restricted Stock Units ("RSUs" and collectively "the Awards") at the maximum Awards shares under the Plan. The RSUs are subject to three-year vesting and the Performance Shares are subject to three-year vesting and certain additional criteria, depending upon Award grant, including continued employment, the comparative performance (on an annual and cumulative basis) of the Company's common stock on Nasdaq as compared to the Russell Micro Cap Index and/or achievement of certain Company or business unit performance goals.

(2) Market value is computed by multiplying the number of Performance Share Awards by $12.88, which was the closing price per share of the Company's common stock on December 31, 2021, on Nasdaq.

(3) As a result of the LiveArea Transaction, Mr. Butler was no longer an employee of PFSweb on December 31, 2021 and as such Mr. Butler has no unvested shares on December 31, 2021.

EMPLOYMENT, CHANGE OF CONTROL AND TERMINATION ARRANGEMENTS FOR EXECUTIVES

The Company and each of Mr. Willoughby and Mr. Madden have entered into Change in Control Severance Agreements, as amended. Under these agreements, and in consideration of certain commitments of the officer to continue employment, upon the occurrence of a change in control, all unvested options held by the officer immediately vest and become exercisable. During the two year period following a change in control (whenever occurring), as defined in the applicable agreement, if the employment of the officer is terminated (other than for cause, death, disability or retirement), or if there is a material adverse change in the officer's responsibilities, compensation or benefits to which the officer does not consent, then, in each case, the officer is entitled to receive from the Company (1) all salary and bonus amounts accrued through the date of termination, (2) a severance payment equal to twice the officer's salary and bonus amount (which is defined as the greater of (i) the highest annual incentive bonus earned by the executive during the last three completed fiscal years or (ii) the executive's then target bonus, if any) and (3) continuation for two years of all employee benefits (unless otherwise provided by a subsequent employer). If applicable, the officer is also entitled to receive an additional payment to compensate the officer for any additional excise tax liability arising by reason of the receipt of such severance or bonus payment. A change in control has the meaning provided in Section 409A of the Internal Revenue Code, as amended (the "Code") and the regulations thereunder. The agreement terminates upon the voluntary resignation or termination of employment by the officer.

In addition, upon a change in control, certain unvested Performance Shares and all Restricted Stock Units issued to the Named Executive Officers immediately vest and each recipient is entitled to receive an additional payment to compensate the officer for any additional excise tax liability arising by reason of the receipt of such shares.

The Company and each of Mr. Willoughby and Mr. Madden have also entered into Executive Severance Agreements. Under these agreements, and in consideration for, among other things, the agreement by the executive to be bound by a restrictive covenant, in the event of the termination of the employment of the executive other than for cause (including termination following a reduction in the executive's base salary unless such reduction is part of, and proportionate with, a general reduction in officer compensation), the executive is entitled to a severance payment, based on the executive's years of service, up to a maximum of twice the executive's salary and the bonus, if any, that the executive would have received for such fiscal year (based upon the executive's targeted bonus amount and the Company's actual results for such fiscal year), payable in monthly installments over a period not to exceed two years (based on the executive's years of service). In addition, in the event of termination without cause, the executive is entitled during the severance period to a continuation of benefits and to the accelerated vesting of all options then held by the executive, and the executive is considered a continuing employee of the Company for all purposes for which the executive's status as an employee of the Company would entitle the executive to some benefit, including the vesting of Performance Shares and Restricted Stock Units. The severance payment and benefits are reduced by any compensation or benefits received by the executive from any subsequent employer.

Effective as of December 31, 2008, the Company and Mr. Willoughby and Mr. Madden entered into an amendment to the existing Executive Severance Agreements and Change in Control Severance Agreements between the Company and such persons. The primary purpose of such amendment was to modify such agreements so that they conform to Section 409A of the Internal Revenue Code. In addition, the amendment to the Executive Severance Agreement modified the calculation of the severance amount thereunder so that it is based on the highest annual rate of base salary during the 12-month period immediately prior to the qualifying termination.

For purposes of providing quantitative disclosure of the foregoing, assuming that a qualifying triggering event occurred as of December 31, 2021 and assuming the 2020 Stock and Incentive Plan had enough shares to issue Awards in 2021 in a consistent manner as the prior year grants: (i) Mr. Willoughby would have been entitled to receive aggregate cash payments of approximately $1,060,000 (payable over 24 months), other benefits with an estimated value of approximately $65,000, and up to 343,598 shares of the Company's stock valued at $4,425,542 based on the $12.88 closing price of the Company's stock on December 31, 2021, (such amounts would be the same in the event of a change in control), plus, if applicable, an additional amount to cover any excise tax liability, and (ii) Mr. Madden would have been entitled to receive aggregate cash payments of approximately $764,000 (payable over 24 months), other benefits with an estimated value of approximately $65,000, and up to 165,578 shares of the Company's stock valued at $2,132,645 based on the $12.88 closing price of the Company's stock on December 31, 2021 (and, in the event of a change in control, an additional amount of up to 1,796 shares of the Company's stock valued at $23,132 based on the $12.88 closing price of the Company's stock on December 31, 2021), plus, if applicable, an additional payment to cover any excise tax liability.

The Company and Mr. Thomann have entered into an Employment Agreement under which in the event of the termination of the employment of the executive other than for cause (including termination following a reduction in the executive's base salary unless such reduction is part of, and proportionate with, a general reduction in officer compensation), the executive is entitled to a severance payment of twelve months of the executive's salary, payable in monthly installments. In addition, in the event of termination without cause, Mr. Thomann is considered a continuing employee of the Company for all purposes for which the executive's status as an employee of the Company would entitle the executive to the vesting of Performance Shares and Restricted Stock Units. For purposes of providing quantitative disclosure of the foregoing, assuming that a qualifying triggering

event occurred as of December 31, 2021 and assuming the 2020 Stock and Incentive Plan had enough shares to issue Awards in 2021 in a consistent manner as the prior year grants: Mr. Thomann would have been entitled to receive aggregate cash payments of approximately $390,000 (payable over 12 months), and up to 34,001 shares of the Company's stock valued at $437,933 based on the $12.88 closing price of the Company's stock on December 31, 2021 (and, in the event of a change in control, an additional amount of up to 5,976 shares of the Company's stock valued at $76,971 based on the $12.88 closing price of the Company's stock on December 31, 2021, plus, if applicable, an additional payment to cover any excise tax liability).

2021 DIRECTOR COMPENSATION

The following table sets forth the compensation earned by non-employee Directors for their service on the Board of Directors and its committees, as applicable, during the year ended December 31, 2021:

Named Executive Officer	Fees Earned Cash	Stock Awards (1)	Option Awards (1)	Total
David I. Beatson (2)(7)	$ 7,500	$ 120,000	$ —	$ 127,500
Monica Luechtefeld (3)(8)	15,000	120,000	—	135,000
Benjamin Rosenzweig (4)	—	120,000	—	120,000
Robert Frankfurt (5)	—	120,000	—	120,000
G. Mercedes De Luca (6)(9)	7,500	120,000	—	127,500

(1) Represents aggregate grant date fair value in accordance with ASC Topic 718. See Note 10 in Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K for the assumptions used in calculating these amounts.
(2) Mr. Beatson had 50,000 options and 125,648 deferred stock units outstanding as of December 31, 2021.
(3) Ms. Luechtefeld had 30,000 options and 122,873 deferred stock units outstanding as of December 31, 2021.
(4) Mr. Rosenzweig had 40,000 options and 125,648 deferred stock units outstanding as of December 31, 2021.
(5) Mr. Frankfurt had 30,000 options and 65,110 deferred stock units outstanding as of December 31, 2021.
(6) Ms. De Luca had 30,000 options and 59,351 deferred stock units outstanding as of December 31, 2021.
(7) Mr. Beatson earned $7,500 in chairperson fees in fiscal 2021, of which $1,875 was paid in fiscal 2022.
(8) Ms. Luechtefeld earned $15,000 in chairperson fees in fiscal 2021, of which $3,750 was paid in fiscal 2022.
(9) Ms. De Luca earned $7,500 in chairperson fees in fiscal 2021, of which $1,875 was paid in fiscal 2022.

For 2021, each non-employee Director received a quarterly retainer ("Retainer") equal to $30,000. Each quarterly Retainer is effected through the issuance of Deferred Stock Units (each, a "DSU") under the Plan. Each DSU represents the right to receive a number of shares of Common Stock equal to the Retainer divided by the closing price of the Common Stock immediately preceding the DSU grant date. The quarterly retainer of $30,000 for the fourth quarter 2021 was awarded in the fiscal year 2022. In June 2021, the Board amended the terms of DSUs to provide that they shall pay Dividend Equivalents (as defined under the Plan) to the non-employee Directors. Dividend Equivalents will be paid in the same form and at the same time as dividends are declared by the Company for its stockholders and paid, if any, on common stock of the Company. Otherwise, the notional shares credited to a non-employee Director of Company shares are not issued under the terms of the DSU until the Director no longer serves on the Board at which time the Company will issue shares of common stock in satisfaction of the obligation.

In addition, the Chairperson of the Board and the chairpersons of the Audit, Compensation and Technology and Cybersecurity Committees are entitled to receive an annual cash payment of $7,500. For fiscal 2021, the fourth quarter payments of $1,875 for the Chairperson of the Board and each Committee chairpersons were made in fiscal 2022.

Directors who are also employees of the Company or any of its subsidiaries receive no remuneration for serving as directors or Committee members.

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

The following table sets forth as of March 31, 2022, certain information regarding the beneficial ownership of the Company's Common Stock by (i) each person who is known to the Company to beneficially own more than 5% of the Common Stock, (ii) each of the Directors and Named Executive Officers of the Company individually and (iii) the Directors and executive officers of the Company as a group. The information contained in this table reflects "beneficial ownership" as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and, as such, also includes shares acquirable within 60 days. Unless otherwise indicated, the stockholders identified in this table have sole voting and investment power with respect to the shares owned of record by them**.**

Name and Address of Beneficial Owner	Number of Shares	Percent (1)
transcosmos, inc. (2)		
Shibuya First Tower 1-2-20, Higashi, Shibuya-ku		
Tokyo 150-0011 Japan	3,678,779	16.4%
Madison Avenue Partners LP		
150 East 58th St, 14th Fl, New York, NY 10155	2,417,438	10.8%
AWM Investment Company, Inc.		
527 Madison Avenue, New York, NY 10022	2,035,179	9.1%
The Vanguard Group, Inc.		
100 Vanguard Boulevard, Malvern, PA 19355	1,157,634	5.2%
James Butler	564,426	2.5%
Michael C. Willoughby	542,091	2.4%
Thomas J. Madden	441,067	2.0%
David I. Beatson (3)	207,390	*
Benjamin Rosenzweig (3)	192,875	*
Monica Luechtefeld (3)	160,232	*
R. Zach Thomann (3)	145,811	*
Mark Fuentes	99,717	*
Robert Frankfurt (3)	102,469	*
G. Mercedes De Luca (3)	96,710	*
Shinichi Nagakura	—	*
All directors and executive officers as a group (11 persons) (4)	2,552,788	11.0%

* Represents less than 1%

(1) This table is based on 22,440,562 shares of Common Stock outstanding on March 31, 2022. To calculate a stockholder's percentage of beneficial ownership, we include in the numerator and denominator those shares underlying options, stock awards and deferred stock units beneficially owned by that stockholder that are vested or that will vest within 60 days. Options, stock awards and deferred stock units held by other stockholders, however, are disregarded in the calculation of beneficial ownership. Therefore, the denominator used in calculating beneficial ownership among our stockholders may differ.

(2) Based on a March 25, 2014 Form SC 13 D/A filing by transcosmos, inc.

(3) Includes the following shares issuable under outstanding vested options, vested stock awards, and deferred stock units: David I. Beatson - 183,007; Benjamin Rosenzweig - 173,007; Monica Luechtefeld - 160,232; R. Zach Thomann - 2,500; Robert Frankfurt - 102,469; and G. Mercedes De Luca - 96,710.

(4) Includes 717,925 shares of Common Stock issuable under outstanding vested options, vested stock awards, and deferred stock units.

The following table summarizes information with respect to equity compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2021:

Plan category (1)	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights (2)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by shareholders	2,024,557	$ 7.24	1,389,391
Equity compensation plans not approved by shareholders	—		—

(1) See Note 10 in Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K for more detailed information regarding the Company’s equity compensation plans.
(2) Excludes 389,400 service-based restricted stock units, 666,000 performance-based and market-based restricted stock units and 498,600 deferred stock units.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

Director Independence

The Board of Directors evaluates the independence of each director in accordance with applicable laws and regulations and the Nasdaq Listing Rules. The Board of Directors consider all relevant facts and circumstances in making an independence determination, including among other things, making an affirmative determination that the director has no material relationship with the Company directly or as an officer, stockholder, or partner of an entity that has a material relationship with the Company. The Board of Directors has determined that, other than Mr. Willoughby, each director, and each member of each committee of the Board of Directors, is independent within the meaning of applicable SEC rules and Nasdaq Listing Rules. The independent directors are able to and generally meet in executive session without the Company's management at each regularly scheduled Board meeting.

Relationships with Related Persons

We have entered into, and intend to enter into, separate indemnification agreements with our directors and certain qualifying officers, in addition to the indemnification provided for in our Amended and Restated Bylaws. These agreements, among other things, require us to indemnify our directors and officers for certain expenses, including attorneys' fees, judgments, fines and settlement amounts incurred by a director or officer or any other company to which the director or officer provides services at our request. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

Purchase Agreement with transcosmos, inc.

In 2013 we entered into a Securities Purchase Agreement (the "Purchase Agreement") with transcosmos inc., a Japanese business processing outsourcing company ("TCI"), pursuant to which the Company sold shares of the Company's common stock to TCI in a private placement transaction. TCI is currently the Company's largest shareholder. Pursuant to the Purchase Agreement, the Company agreed to nominate a representative of TCI to the Company's board of directors, or a replacement designated by TCI, so long as TCI owns 10% of the Company's issued and outstanding shares of common stock. Mr. Nagakura currently serves as the director designated by TCI. The Purchase Agreement also provides TCI with certain preemptive rights and subjects TCI to certain share transfer restrictions and standstill provisions.

Other Transactions

We entered into various employment related agreements and compensatory arrangements with our executive officers and directors that provide for compensatory and certain severance and change of control benefits. For a description of these see sections above in Item 11 – Executive Compensation titled "Employment, Change of Control and Termination Arrangements for Executives" and "Director Compensation."

Item 14. ***Principal Accounting Fees and Services***

Fees billed to the Company by BDO USA, LLP for the years 2021 and 2020

The following table sets forth (i) the aggregate fees billed by BDO USA, LLP relating to the audit of the 2021 and 2020 consolidated financial statements and (ii) the fees for other professional services billed by BDO USA, LLP in connection with services rendered during 2021 and 2020.

Fee Type	2021		2020	
Audit fees (a)	$	1,490,000	$	716,000
Audit-related fees (b)	$	56,000	$	69,000
Tax fees (c)	$	5,000	$	5,000
All other fees	$	—	$	—

(a) Includes fees for professional services rendered in connection with the audits of the annual financial statements and the effectiveness of internal control over financial reporting, reviews of the quarterly financial statements, and services provided in connection with other regulatory filings.
(b) Consists of aggregate fees billed for assurance services provided in connection with reports on certain internal controls under Statement on Standards for Attestation Engagements (SSAE) No. 18.
(c) Consists of fees billed related to tax compliance related services.

All of the fees listed in the chart above were pre-approved by the Audit Committee, which concluded that the provisions of such services by BDO USA, LLP was compatible with the maintenance of that firm's independence in the conduct of its audit.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non Audit Services of Independent Registered Public Accountants

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent auditors. These services may include audit services, audit related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case by case basis. During 2021 all audit, non-audit and tax services provided by BDO USA, LLP were pre-approved by the Audit Committee in accordance with this policy.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

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

1. *Financial Statements*
PFSweb, Inc. and Subsidiaries

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets
Consolidated Statements of Operations and Comprehensive Income (Loss)
Consolidated Statements of Shareholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

2. *Exhibits*

Exhibit Number	Description of Exhibits
2.1	Stock Purchase Agreement, dated as of July 2, 2021, by and among PFSweb, Inc., Priority Fulfillment Services, Inc., RevTech Solutions India Private Limited, Merkle, Inc. and Dentsu Aegis Network India Private Limited
2.1.1	Amendment to Stock Purchase Agreement, dated as of August 26, 2021, by and among PFSweb, Inc., Priority Fulfillment Services, Inc., RevTech Solutions India Private Limited, Merkle, Inc. and Dentsu Aegis Network India Private Limited.
3.1	Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.1	Certificate of Amendment of Certificate of Incorporation of PFSweb, Inc.
3.1.2	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.4	Certificate of Amendment of Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2	Amended and Restated By-Laws.
4.1	Rights Agreement, dated as of June 8, 2000, between the Company and ChaseMellon Shareholder Services, LLC.
4.1.8	Amendment No. 8 to Rights Agreement, dated as of August 24, 20121 between the Company and Computershare Inc., successor in interest to Computershare Shareowner Services LLC (formerly known as Mellon Investor Services LLC,) as successor to ChaseMellon Shareholder Services, L.L.C., as rights agent.
4.2	Description of Registrant's securities.
10.5	Industrial Lease Agreement between Shelby Drive Corporation and Priority Fulfillment Services, Inc. dated as of August 31, 1999
10.5.1	Modification, Ratification and Extension of Lease between Shelby Drive Corporation and Priority Fulfillment Services, Inc. dated as of December 19, 2003
10.5.3	Third Modification, Ratification and Extension of Lease dated February 28, 2014 between Southpark Distribution Center Inc., (successor-in-interest to TIAA Realty and Shelby Drive Corporation) and Priority Fulfillment Services, Inc.
10.7*	Form of Change of Control Agreement between the Company and certain of its executive officers.
10.8	Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., Inventory Financing Partners, LLC and IBM Credit Corporation.
10.11	Subordinated Demand Note by and between Supplies Distributors, Inc. and Priority Fulfillment Services, Inc.
10.12*	Form of Executive Severance Agreement between the Company and certain of its executive officers.

Exhibit Number	Description of Exhibits
10.12.1*	Form of Amendment of Executive Severance Agreement.
10.12.2*	Form of Amendment to Change in Control Severance Agreement.
10.12.3**	Change in Control Severance Agreement
10.44	Lease Agreement dated December 8, 2011, between CCI-Millennium, L.P. and Priority Fulfillment Services, Inc.
10.45	Guaranty of PFSweb, Inc. to CCI-Millennium, L.P.
10.48	Agreement, dated as of May 15, 2013, by and among PFSweb, Inc. and Privet Fund LP, Privet Fund Management LLC, Ryan Levenson and Benjamin Rosenzweig.
10.61	Guaranty dated March 21, 2016 by PFSweb, Inc., in favor of Stateline J, LLC.
10.63	Industrial Lease agreement dated June 30, 2016 by and between US Industrial Reit III – Midwest and Priority Fulfillment Services, Inc.
10.82	Industrial Lease agreement dated March 17, 2016 by and between Stateline J, LLC and Priority Fulfillment Services, Inc.
10.86*	Employment Agreement by and between PFSweb, Inc. and James Butler, dated as of June 11, 2019.
10.87*	Employment Agreement by and between Priority Fulfillment Services, Inc., a Delaware corporation and Zach Thomann, dated as of May 17, 2020
10.88	Logistics Warehouse Lease Agreement between Weerts Logistic Park III NV and Supplies Distributors SA
10.89	Warehouse Lease Agreement between ProLogis Texas II (2) LLC and Priority Fulfillment Services, Inc.
10.90	Warehouse Lease Agreement between Matter Cheyenne Logistics, LLC and Priority Fulfillment Services, Inc.
10.91*	2020 Stock and Incentive Plan.
10.92*	Form of 2019 STI Company Performance Based Share Award.
10.93*	Form of Amended and Restated 2019 LTI Performance Based Restricted Stock Unit Award.
10.94*	Form of Amended and Restated 2019 LTI Time Based Restricted Stock Unit Award.
10.95*	Form of Amended and Restated 2019 LTI TSR Performance Share Award Agreement.
10.96*	Form of 2020 STI Company Performance Based Cash Award.
10.97*	Form of 2020 STI Company Performance Based Share Award.
10.98*	Form of Amended and Restated 2020 LTI Performance Based Restricted Stock Unit Award.
10.99*	Form of Amended and Restated 2020 LTI Time Based Restricted Stock Unit Award.
10.100*	Form of Amended and Restated 2020 LTI TSR Performance Share Award Agreement.
10.101*	Transaction Bonus Agreement by and between PFSweb, Inc., Priority Fulfillment Services, Inc. and James Butler, dated as of August 25, 2021.
10.102*	Transaction Bonus Agreement by and between PFSweb, Inc., Priority Fulfillment Services, Inc. and Michael Willoughby, dated as of July 2, 2021.
10.103*	Transaction Retention Bonus Agreement by and between Zach Thomann and Priority Fulfillment Services, Inc. dated as of January 18, 2022.
10.105*	Form of STI 2021 Company Performance Based Cash Award
10.106*	Form of STI 2021 Company Performance Based Share Award
10.107*	Form of LTI 2021 Performance Based Restricted Stock Unit Award
10.108*	Form of LTI 2021 Time Based Restricted Stock Unit Award

Exhibit Number	Description of Exhibits
10.109*	Form of LTI 2021 TSR Performance Share Award
10.110**	Deferred Stock Unit Award Agreement dated March 14, 2022
21**	Subsidiary Listing.
23.1**	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.
24.1**	Power of Attorney
31.1**	Certifications of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
31.2**	Certifications of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.
32.1**	Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following financial statements from the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
104 **	Cover Page Interactive Data file, formatted in Inline XBRL (included as Exhibit 101).

* Denotes management or compensatory agreements

** Filed herewith

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated May 9, 2022

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

POWER OF ATTORNEY

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

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

Signature	Title	Date
/s/Michael Willoughby Michael Willoughby	Chief Executive Officer (Principal Executive Officer)	May 9, 2022
/s/Thomas J. Madden Thomas J. Madden	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	May 9, 2022
/s/Monica Luechtefeld Monica Luechtefeld	Chairman of the Board	May 9, 2022
/s/David I. Beatson David I. Beatson	Director	May 9, 2022
/s/Benjamin Rosenzweig Benjamin Rosenzweig	Director	May 9, 2022
/s/Shinichi Nagakura Shinichi Nagakura	Director	May 9, 2022
/s/Robert Frankfurt Robert Frankfurt	Director	May 9, 2022
/s/G. Mercedes De Luca G. Mercedes De Luca	Director	May 9, 2022

DEFERRED STOCK UNIT AWARD AGREEMENT

THIS AGREEMENT (this "Agreement") dated as of March 14, 2022 (the "Date of Grant") between PFSweb, Inc., a Delaware corporation (the "Company"), and the Participant set forth on the signature page to this Agreement (the "Participant"). All capitalized terms not defined herein shall have the meaning set forth in the PFSweb, Inc. 2020 Stock and Incentive Plan (the "Plan") of the Company.

WHEREAS, the Company, acting through the Committee, has authorized the issuance of an Award of a number of Deferred Stock Units on the terms and subject to the conditions set forth in this Agreement and the Plan.

NOW, THEREFORE, in consideration of the promises and of the mutual agreements contained in this Agreement, the parties hereto hereby agree as follows:

1. Grant of DSUs. Effective on the Date of Grant, the Company hereby grants to the Participant the number of Deferred Stock Units ("DSUs") listed on the attached signature page, on the terms and conditions hereinafter set forth. This grant is made pursuant to the terms of the Plan.

2. Payment of Shares. The Company shall, subject to the remainder of this Agreement, issue to the Participant a number of Shares equal to the number of DSUs granted to the Participant under this Agreement on, or within, and not later than, 30 days following, the date on which the Participant ceases to serve as a member of the Board of Directors of the Company. Said Shares shall be issued in certificate or book-entry form and in accordance with such administrative procedures as the Committee shall determine to be necessary or appropriate.

3. Right to Dividend Equivalents. Dividends if and when declared and paid with respect to the Company's common stock, shall be paid to the Participant in the same form of the Dividend of the Company's common stock as Dividend Equivalents.

4. Adjustments Upon Certain Events. The number of Shares to be issued hereunder shall be adjusted in accordance with, and subject to the occurrence of an event set forth in, Section 16.1 of the Plan.

5. No Right to Continued Service as a Director. Neither the Plan nor this Agreement shall be construed as giving the Participant the right to continue to serve as a director of the Company.

6. No Rights of a Shareholder. Except as otherwise set forth in this Agreement, the Participant shall not have any rights as a shareholder of the Company in respect of the Shares to be issued hereunder, including any right to vote said Shares or receive dividends thereon, until the Shares have been issued hereunder.

7. Transferability. The DSUs evidenced hereby may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant otherwise than by will or by the laws of descent and distribution, and any purported assignment, alienation,

pledge, attachment, sale, transfer or encumbrance not permitted by this Section shall be void and unenforceable against the Company.

8. Choice of Law. THE INTERPRETATION, PERFORMANCE AND ENFORCEMENT OF THE PARTICIPANT'S RIGHTS WITH RESPECT TO THE DSUs SHALL BE GOVERNED BY THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW.

9. DSUs Subject to Plan. By accepting the award of DSUs, the Participant agrees and acknowledges that the Participant has received and read a copy of the Plan and that all DSUs are subject to the Plan. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

10. Section 409A. Notwithstanding anything in this Agreement to the contrary, any payments hereunder that would be subject to the additional income tax imposed by Section 409A of the Internal Revenue Code of 1986, as amended, shall be deferred until the earliest date that such payments may be made without the imposition of such tax.

****

DEFERRED STOCK UNIT AWARD AGREEMENT SIGNATURE PAGE

In Witness Whereof, effective as of the Date of Grant, the Company has executed and delivered this Deferred Stock Unit Award Agreement.

Date of Grant:	
Name of Holder:	
Number of DSUs:	
DSU Certificate Number:	

PFSWEB, INC.

By: ______________________________________
Its: Chief Financial Officer

CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS AGREEMENT is entered into as of the 9th day of June, 2000 by and between PFSweb, Inc., a Delaware corporation (the "Company"), and THOMAS J. MADDEN ("Executive").

WITNESSETH

WHEREAS, the Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its stockholders; and

WHEREAS, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may arise and that such possibility may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board (as defined in Section 1) has determined that it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued and undivided dedication to his duties in the event of any threat or occurrence of a Change in Control (as defined in Section 1) of the Company; and

WHEREAS, the Board has authorized the Company to enter into this Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

a) "Board" means the Board of Directors of the Company.

a) "Bonus Amount" means the greater of (I) the highest annual incentive bonus earned by Executive from the Company (or its affiliates) during the last three (3) completed fiscal years of the Company immediately preceding Executive's Date of Termination (annualized in the event Executive was not employed by the Company (or its affiliates) for the whole of any such fiscal year) or (ii) the Executive's target bonus for the fiscal year of the Company which includes the Executive's Date of Termination.

a) "Cause" means (I) the willful and continued failure of Executive to perform substantially his duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness or any such failure subsequent to Executive being delivered a Notice of Termination without Cause by the Company or delivering a Notice of Termination for Good Reason to the Company) after a written demand for substantial performance is delivered to Executive by the Board which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties, or (ii) the willful engaging by Executive in illegal conduct or gross misconduct which is demonstrably and materially injurious to the Company or its affiliates. For purpose of the preceding sentence, no act or failure to act by Executive shall be considered "willful" unless done or omitted to be done by Executive in bad faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board, based upon the advice of counsel for the Company (or upon the instructions of the Company's chief executive officer or another senior officer of the Company) shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company. Cause shall not exist unless and until the Company has delivered to Executive a copy of a resolution duly adopted by a majority of the entire Board (excluding Executive if Executive is a Board member) at a meeting of the Board called and held for such purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board an event set forth in clauses (1) or (2) has occurred and specifying the particulars thereof in detail. The Company must notify Executive of any event constituting Cause within ninety (90) days following the Company's knowledge of its existence or such event shall not constitute Cause under this Agreement.

a) "Change in Control" means the occurrence of any one of the following events:

(1) individuals who, on the date of this Agreement, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date of this Agreement, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or

threatened solicitation of proxies (or consents) by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(2) any "Person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board (the "Company Voting Securities"); provided, however, that the event described in this paragraph (ii) shall not be deemed to be a Change in Control by virtue of any of the following acquisitions: (A) by the Company or any Subsidiary, (B) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (C) by any underwriter temporarily holding securities pursuant to an offering of such securities, (D) pursuant to a Non-Qualifying Transaction (as defined in paragraph (iii)), or (E) pursuant to any acquisition by Executive or any group of persons including Executive (or any entity controlled by Executive or any group of persons including Executive);

(1) the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a "Business Combination"), unless immediately following such Business Combination: (A) more than 50% of the total voting power of (x) the corporation resulting from such Business Combination (the "Surviving Corporation"), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of 30% or more of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the

criteria specified in (A), (B) and (C) above shall be deemed to be a "Non-Qualifying Transaction); or

(1) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or a sale of all or substantially all of the Company's assets.

Notwithstanding the foregoing, a Change in Control of the Company shall not be deemed to occur solely because any person acquires beneficial ownership of more than 30% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur.

a) "Date of Termination" means (1) the effective date on which Executive's employment by the Company terminates as specified in a prior written notice by the Company or Executive, as the case may be, to the other, delivered pursuant to Section 10 or (2) if Executive's employment by the Company terminates by reason of death, the date of death of Executive.

a) "Disability" means termination of Executive's employment by the Company due to Executive's absence from Executive's duties with the Company on a full-time basis for at least one hundred eighty (180) consecutive days as a result of Executive's incapacity due to physical or mental illness.

a) "Good Reason" means, without Executive's express written consent, the occurrence of any of the following events after a Change in Control:

(1) (A) any change in the duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material and adverse respect with Executive's position(s), duties, responsibilities or status with the Company immediately prior to such Change in Control (including any material and adverse diminution of such duties or responsibilities); provided, however, that Good Reason shall not be deemed to occur upon a change in duties or responsibilities (other than reporting responsibilities) that is solely and directly a result of the Company no longer being a publicly traded entity and does not involve any other event set forth in this paragraph (g) or (B) a material and adverse change in Executive's titles or offices (including, if applicable, membership on the Board) with the Company as in effect immediately prior to such Change in Control;

(1) a reduction by the Company in Executive's rate of annual base salary or annual target bonus opportunity (including any material and adverse change in the formula for such annual bonus target) as in effect immediately prior to such Change in Control or as the same may be increased from time to time thereafter;

(1) any requirement of the Company that Executive (A) be based anywhere more than thirty-five (35) miles from the office where Executive is located at the time of the Change in Control, if such relocation increases Executive's commute by more than twenty (20) miles, or (B) travel on Company business to an extent substantially greater than the travel obligations of Executive immediately prior to such Change in Control;

(1) the failure of the Company to (A) continue in effect any employee benefit plan, compensation plan, welfare benefit plan or material fringe benefit plan in which Executive is participating immediately prior to such Change in Control or the taking of any action by the Company which would adversely affect Executive's participation in or reduce Executive's benefits under any such plan, unless Executive is permitted to participate in other plans providing Executive with substantially equivalent benefits in the aggregate (at substantially equivalent cost with respect to welfare benefit plans), or (B) provide Executive with paid vacation in accordance with the most favorable vacation policies of the Company as in effect for Executive immediately prior to such Change in Control, including the crediting of all service for which Executive had been credited under such vacation policies prior to the Change in Control;

(1) any refusal by the Company to continue to permit Executive to engage in activities not directly related to the business of the Company which Executive was permitted to engage in prior to the Change in Control;

(1) any purported termination of Executive's employment which is not effectuated pursuant to Section 10(b) (and which will not constitute a termination hereunder); or

(1) the failure of the Company to obtain the assumption (and, if applicable, guarantee) agreement from any successor (and, if applicable, Parent Corporation) as contemplated in Section 9(b).

An isolated, insubstantial and inadvertent action taken in good faith and which is remedied by the Company within ten (10) days after receipt of notice thereof given by Executive shall not constitute Good Reason. Executive's right to terminate employment for Good Reason shall not be affected by Executive's incapacity due to mental or physical illness and Executive's continued employment shall not constitute

consent to, or a waiver of rights with respect to, any event or condition constituting Good Reason; provided, however, that Executive must provide notice of termination of employment within ninety (90) days following Executive's knowledge of an event constituting Good Reason or such event shall not constitute Good Reason under this Agreement).

a) "Qualifying Termination" means a termination of Executive's employment (I) by the Company other than for Cause or (ii) by Executive for Good Reason. Termination of Executive's employment on account of death, Disability or Retirement shall not be treated as a Qualifying Termination.

a) "Subsidiary" means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% of the assets upon liquidation or dissolution.

a) "Termination Period" means the period of time beginning with a Change in Control and ending two (2) years following such Change in Control. Notwithstanding anything in this Agreement to the contrary, if (I) Executive's employment is terminated prior to a Change in Control for reasons that would have constituted a Qualifying Termination if they had occurred following a Change in Control; (ii) Executive reasonably demonstrates that such termination (or Good Reason event) was at the request of a third party who had indicated an intention or taken steps reasonably calculated to effect a Change in Control; and (iii) a Change in Control involving such third party (or a party competing with such third party to effectuate a Change in Control) does occur, then for purposes of this Agreement, the date immediately prior to the date of such termination of employment or event constituting Good Reason shall be treated as a Change in Control. For purposes of determining the timing of payments and benefits to Executive under Section 4, the date of the actual Change in Control shall of treated as Executive's Date of Termination under Section l(e).

1. Obligation of Executive. In the event of a tender or exchange offer, proxy contest, or the execution of any agreement which, if consummated, would constitute a Change in Control, Executive agrees not to voluntarily leave the employ of the Company, other than as a result of Disability or an event which would constitute Good Reason if a Change in Control had occurred, until the Change in Control occurs or, if earlier, such tender or exchange offer, proxy contest, or agreement is terminated or abandoned.

1. Term of Agreement. This Agreement shall be effective on the date hereof and shall continue in effect until the Company shall have given three (3) years' written notice of cancellation; provided, that, notwithstanding the delivery of any such notice, this Agreement shall continue in effect for a period of two (2) years after a Change in Control, if such Change in Control shall have occurred during the term of this Agreement. Notwithstanding anything in this Section to the contrary, this Agreement shall terminate if Executive or the Company terminates Executive's employment prior to a Change in Control except as provided in Section l(j).

1. Payments and Benefits

a) Qualifying Termination - Severance. If during the Termination Period the employment of Executive shall terminate pursuant to a Qualifying Termination, then the Company shall pay to Executive:

(1) within ten (10) days following the Date of Termination a lump-sum cash amount equal to the sum of (A) Executive's base salary through the Date of Termination and any bonus amounts which have become payable, to the extent not theretofore paid or deferred, (B) a pro rata portion of Executive's annual bonus for the fiscal year in which Executive's Date of Termination occurs in an amount at least equal to (1) Executive's Bonus Amount, multiplied by (2) a fraction, the numerator of which is the number of days in the fiscal year in which the Date of Termination occurs through the Date of Termination and the denominator of which is three hundred sixty-five (365), and reduced by (3) any amounts paid from the Company's annual incentive plan for the fiscal year in which Executive's Date of Termination occurs, and (C), any compensation previously deferred by Executive other than pursuant to a tax-qualified plan (together with any interest and earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid; plus

(1) within ten (10) days following the Date of Termination, a lump-sum cash amount equal to (I) two (2) times Executive's highest annual rate of base salary during the 12-month period immediately prior to Executive's Date of Termination, plus (ii) two (2) times Executive's Bonus Amount, plus (iii) the value of any Company-provided benefits under the Company's 401(k) Plan which Executive would have accrued in the two (2) years following the Date of Termination had he remained employed by the Company during such period, calculated assuming that both the Executive and the Company contributed the highest permissible amounts to the plans during such period.

a) Qualifying Termination - Benefits. If during the Termination Period the employment of Executive shall terminate pursuant to a Qualifying Termination, the Company shall continue to provide, for a period of two (2) years following Executive's Date of Termination, Executive (and Executive's

dependents, if applicable) with the same level of medical, dental, accident, disability and life insurance benefits upon substantially the same terms and conditions (including contributions required by Executive for such benefits) as existed immediately prior to Executive's Date of Termination (or, if more favorable to Executive, as such benefits and terms and conditions existed immediately prior to the Change in Control); provided, that, if Executive cannot continue to participate in the Company plans providing such benefits, the Company shall otherwise provide such benefits on the same after-tax basis as if continued participation had been permitted. Notwithstanding the foregoing, in the event Executive becomes reemployed with another employer and becomes eligible to receive welfare benefits from such employer, the welfare benefits described herein shall be secondary to such benefits during the period of Executive's eligibility, but only to the extent that the Company reimburses Executive for any increased cost and provides any additional benefits necessary to give Executive the benefits provided hereunder.

a) Nonqualifying Termination. If during the Termination Period the employment of Executive shall terminate other than by reason of a Qualifying Termination, then the Company shall pay to Executive within thirty (30) days following the Date of Termination, a lump-sum cash amount equal to the sum of (1) Executive's base salary through the Date of Termination and any bonus amounts which have become payable, to the extent not theretofore paid or deferred, and (2) any compensation previously deferred by Executive other than pursuant to a tax-qualified plan (together with any interest and earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid. The Company may make such additional payments, and provide such additional benefits, to Executive as the Company and Executive may agree in writing.

a) Stock Options. In the event of a Change in Control, all options to purchase Company stock held by Executive ("Options") which are not fully vested and exercisable shall become fully vested and exercisable as of a time established by the Board, which shall be no later than a time preceding the Change in Control which allows Executive to exercise the Options and cause the stock acquired thereby to participate in the Change in Control transaction. If the Change in Control transaction is structured such that stock participating therein at one time is or may be treated differently than stock participating therein at a different time (e.g., a tender offer followed by a squeeze-out merger, with differing forms or amounts of consideration), the Board shall interpret this paragraph (d) to provide for the required vesting acceleration in a manner designed to allow Executive to exercise the Options and cause the stock acquired thereby to participate in the earliest portion of the Change in Control transaction. If the consummation of a pending or threatened Change in Control transaction is uncertain (e.g., a tender offer in which the tender of a minimum number of shares is a condition to closing, or a voted merger or proxy contest in which a minimum number of votes is a condition to closing), the Board shall apply this

paragraph (d) by using its best efforts to determine if and when the Change in Control transaction is likely to occur, and proceeding accordingly. To the extent necessary to implement this Section 4(d), each stock option agreement reflecting the Options, and each stock option plan relating to each such stock option agreement, if any, shall be deemed amended.

1. Certain Additional Payments by the Company.

a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Company (or any of its affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of Executive (whether pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5) (the "Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the sum of (x) the Excise Tax imposed upon the Payments and (y) the product of any deductions disallowed because of the inclusion of the Gross-Up Payment in Executive's adjusted gross income and the highest applicable marginal rate of federal income taxation for the calendar year in which the Gross-Up Payment is to be made. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to (I) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made, (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes and (iii) have otherwise allowable deductions for federal income tax purposes at least equal to those which could be disallowed because of the inclusion of the Gross-Up Payment in the Executive's adjusted gross income.

a) Subject to the provisions of Section 5(a), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by the public accounting firm that is retained by the Company as of the date immediately prior to the Change in Control (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business

days of the receipt of notice from the Company or the Executive that there has been a Payment, or such earlier time as is requested by the Company (collectively, the "Determination"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company and the Company shall enter into any agreement requested by the Accounting Firm in connection with the performance of the services hereunder. The Gross-Up Payment under this Section 5 with respect to any Payments shall be made no later than thirty (30) days following such Payment. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion to such effect, and to the effect that failure to report the Excise Tax, if any, on Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The Determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the Determination, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") or Gross-Up Payments are made by the Company which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that the Executive thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Company to or for the benefit of Executive. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse the Executive for his Excise Tax, the Accounting Firm shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by Executive (to the extent he has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Company. Executive shall cooperate, to the extent his expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax.

1. Withholding Taxes. The Company may withhold from all payments due to Executive (or his beneficiary or estate) hereunder all taxes which, by applicable federal, state, local or other law, the Company is required to withhold therefrom.

1. Reimbursement of Expenses. If any contest or dispute shall arise under this Agreement involving termination of Executive's employment with

the Company or involving the failure or refusal of the Company to perform fully in accordance with the terms hereof, the Company shall reimburse Executive, on a current basis, for all reasonable legal fees and expenses, if any, incurred by Executive in connection with such contest or dispute (regardless of the result thereof), together with interest in an amount equal to the Chase Manhattan Bank prime rate from time to time in effect, but in no event higher than the maximum legal rate permissible under applicable law, such interest to accrue from the date the Company receives Executive's statement for such fees and expenses through the date of payment thereof, regardless of whether or not Executive's claim is upheld by a court of competent jurisdiction; provided, however, Executive shall be required to repay any such amounts to the Company to the extent that a court issues a final order from which no appeal can be taken, or with respect to which the time period to appeal has expired, setting forth the determination that the position taken by Executive was frivolous or advanced by Executive in bad faith.

1. Scope of Agreement. Nothing in this Agreement shall be deemed to entitle Executive to continued employment with the Company or its Subsidiaries, and if Executive's employment with the Company shall terminate prior to a Change in Control, Executive shall have no further rights under this Agreement (except as otherwise provided hereunder); provided, however, that any termination of Executive's employment during the Termination Period shall be subject to all of the provisions of this Agreement.

1. Successors; Binding Agreement.

a) This Agreement shall not be terminated by any Business Combination. In the event of any Business Combination, the provisions of this Agreement shall be binding upon the Surviving Corporation, and such Surviving Corporation shall be treated as the Company hereunder.

a) The Company agrees that in connection with any Business Combination, it will cause any successor entity to the Company unconditionally to assume (and for any Parent Corporation in such Business Combination to guarantee), by written instrument delivered to Executive (or his beneficiary or estate), all of the obligations of the Company hereunder. Failure of the Company to obtain such assumption and guarantee prior to the effectiveness of any such Business Combination that constitutes a Change in Control, shall be a breach of this Agreement and shall constitute Good Reason hereunder and shall entitle Executive to compensation and other benefits from the Company in the same amount and on the same terms as Executive would be entitled hereunder if Executive's employment were terminated following a Change in Control by reason of a Qualifying Termination. For purposes of implementing the foregoing, the date on which any such Business

Combination becomes effective shall be deemed the date Good Reason occurs, and shall be the Date of Termination if requested by Executive.

a) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive shall die while any amounts would be payable to Executive hereunder had Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by Executive to receive such amounts or, if no person is so appointed, to Executive's estate.

a) Notice. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five (5) days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed as follows:

If to the Executive to the most recent address of such Executive on the books and records of the Company; and

If to the Company:

PFSweb, Inc.
500 North Central Expressway
Plano, Texas 75074
Attention: Secretary

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

a) A written notice of Executive's Date of Termination by the Company or Executive, as the case may be, to the other, shall (I) indicate the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated and (iii) specify the termination date (which date shall be not less than fifteen (15) (thirty (30), if termination is by the Company for Disability) nor more than sixty (60) days after the giving of such notice). The failure by Executive or the Company to set forth in such notice any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of Executive or the Company hereunder or preclude Executive or the Company from asserting

such fact or circumstance in enforcing Executive's or the Company's rights hereunder.

1. Full Settlement; Resolution of Disputes. The Company's obligation to make any payments provided for in this Agreement and otherwise to perform its obligations hereunder shall be in lieu and in full settlement of all other severance payments to Executive under any other severance or employment agreement between Executive and the Company, and any severance plan of the Company. The Company's obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against Executive or others. In no event shall Executive be obligated to seek other employment or take other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement and, except as provided in Section 4(b), such amounts shall not be reduced whether or not Executive obtains other employment.

1. Employment with Subsidiaries. Employment with the Company for purposes of this Agreement shall include employment with any Subsidiary.

1. Survival. The respective obligations and benefits afforded to the Company and Executive as provided in Sections 4 (to the extent that payments or benefits are owed as a result of a termination of employment that occurs during the term of this Agreement), 5 (to the extent that Payments are made to Executive as a result of a Change in Control that occurs during the term of this Agreement), 6, 7, 9(c) and 11 shall survive the termination of this Agreement.

1. GOVERNING LAW; VALIDITY. THE INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF, OF SUCH PRINCIPLES OF ANY OTHER JURISDICTION WHICH COULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF DELAWARE. THE INVALIDITY OR UNENFORCEABILITY OF ANY PROVISION OF THIS AGREEMENT SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS AGREEMENT, WHICH OTHER PROVISIONS SHALL REMAIN IN FULL FORCE AND EFFECT.

1. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

1. Miscellaneous. No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder, including, without limitation, the right of Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement. Except as otherwise specifically provided herein, the rights of, and benefits payable to, Executive, his estate or his beneficiaries pursuant to this Agreement are in addition to any rights of, or benefits payable to, Executive, his estate or his beneficiaries under any other employee benefit plan or compensation program of the Company.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of the day and year first above written.

PFSweb, Inc.

PFSweb, Inc.

COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS OF PFSweb, Inc.

Executive

Name	Jurisdiction
Priority Fulfillment Services. Inc.	Delaware
Priority Fulfillment Services. Inc. of Canada, Inc.	Canada
PFSweb Retail Connect, Inc.	Delaware
PFS Global Service UK Limited	England
BSD Holdings, Inc.	Delaware
Business Supplies Distributors Holdings, LLC	Delaware
Business Supplies Distributors, Inc.	Delaware
Supplies Distributors, Inc.	Delaware
Supplies Distributors of Canada, Inc.	Canada
Supplies Distributors SA	Belgium
REV Solutions, Inc.	Delaware
Crossview, LLC	Delaware
LiveAreaLabs, Inc.	Washington
REVtech Solutions India Private Limited	India
PFSweb GmbH	Germany

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

PFSweb, Inc.
Allen, TX

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-258602 and 333-239665) of PFSweb, Inc. and Subsidiaries of our reports dated May 9, 2022, relating to the consolidated financial statements, and the effectiveness of PFSweb, Inc.'s internal control over financial reporting, which appear in this Form 10-K. Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2021.

/s/ BDO USA, LLP

Dallas, TX
May 9, 2022

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 annual report on Form 10-K 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 periods 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 9, 2022

By: /s/ MICHAEL WILLOUGHBY
Chief Executive Officer

Exhibit 31.2

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

I, Thomas Madden, certify that:

1. I have reviewed this annual report on Form 10-K 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 periods 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 9, 2022

By: /s/ THOMAS J. MADDEN
Chief Financial Officer

Exhibit 32.1

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

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

The Annual Report on Form 10-K for the year ended December 31, 2021 (the “Form 10-K”) 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-K 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-K.

May 9, 2022	/s/ Michael Willoughby
	Michael Willoughby
	Chief Executive Officer
May 9, 2022	/s/ Thomas J. Madden
	Thomas J. Madden
	Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-K 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-K 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.