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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2016

OR

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

For the Transition Period from ______ to ______

Commission File Number 000-28275

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

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

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

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

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

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

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

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

At November 5, 2016 there were 18,706,633 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q
September 30, 2016

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES

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

	(Unaudited) September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,699	$ 21,781
Restricted cash	219	275
Accounts receivable, net of allowance for doubtful accounts of $539 and $600 at September 30, 2016 and December 31, 2015, respectively	64,934	70,700
Inventories, net of reserves of $585 and $739 at September 30, 2016 and December 31, 2015, respectively	7,155	9,262
Other receivables	4,821	8,704
Prepaid expenses and other current assets	5,017	5,662
Total current assets	97,845	116,384
PROPERTY AND EQUIPMENT, net	28,812	24,093
IDENTIFIABLE INTANGIBLES, net	8,125	8,810
GOODWILL	45,929	39,829
OTHER ASSETS	2,433	2,174
Total assets	$ 183,144	$ 191,290
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 5,672	$ 3,153
Trade accounts payable	38,009	51,170
Deferred revenue	6,238	7,390
Performance-based contingent payments	—	11,679
Accrued expenses	25,109	30,563
Total current liabilities	75,028	103,955
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	54,749	32,238
DEFERRED REVENUE	4,280	4,499
DEFERRED RENT	4,849	4,362
PERFORMANCE-BASED CONTINGENT PAYMENTS	380	2,478
Total liabilities	139,286	147,532
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS’ EQUITY:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, $0.001 par value; 35,000,000 shares authorized; 18,740,100 and 18,136,218 shares issued at September 30, 2016 and December 31, 2015, respectively; and 18,706,633 and 18,102,751 outstanding at September 30, 2016 and December 31, 2015, respectively	19	18
Additional paid-in capital	145,045	141,948
Accumulated deficit	(101,760)	(97,787)
Accumulated other comprehensive income (loss)	679	(296)
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders’ equity	43,858	43,758
Total liabilities and shareholders’ equity	$ 183,144	$ 191,290

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

PFSWEB, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES:				
Service fee revenue	$ 53,788	$ 45,528	$ 154,271	$ 121,311
Product revenue, net	11,671	14,419	36,658	44,731
Pass-through revenue	14,451	11,236	41,259	32,163
Total revenues	79,910	71,183	232,188	198,205
COSTS OF REVENUES:				
Cost of service fee revenue	36,903	30,193	103,547	81,993
Cost of product revenue	10,994	13,702	34,649	42,321
Cost of pass-through revenue	14,451	11,236	41,259	32,163
Total costs of revenues	62,348	55,131	179,455	156,477
Gross profit	17,562	16,052	52,733	41,728
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation of $347 and $1,492 for the three months ended September 30, 2016 and 2015, respectively, and $1,743 and $3,446 for the nine months ended September 30, 2016 and 2015, respectively	17,568	18,778	53,926	47,068
Loss from operations	(6)	(2,726)	(1,193)	(5,340)
INTEREST EXPENSE, net	714	706	1,807	1,247
Loss from operations before income taxes	(720)	(3,432)	(3,000)	(6,587)
INCOME TAX EXPENSE, net	319	238	973	676
NET LOSS	$ (1,039)	$ (3,670)	$ (3,973)	$ (7,263)
NET LOSS PER SHARE:				
Basic	$ (0.06)	$ (0.21)	$ (0.21)	$ (0.42)
Diluted	$ (0.06)	$ (0.21)	$ (0.21)	$ (0.42)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	18,699	17,829	18,552	17,449
Diluted	18,699	17,829	18,552	17,449
COMPREHENSIVE LOSS:				
Net loss	$ (1,039)	$ (3,670)	$ (3,973)	$ (7,263)
Foreign currency translation adjustment	680	(89)	976	(757)
TOTAL COMPREHENSIVE LOSS	$ (359)	$ (3,759)	$ (2,997)	$ (8,020)

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,973)	$ (7,263)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,206	10,645
Amortization of debt issuance costs	109	—
Provision for doubtful accounts	16	53
Provision for excess and obsolete inventory	21	75
Deferred income taxes	57	125
Stock-based compensation expense	1,743	3,446
Non-cash compensation expense	—	131
Change in performance-based contingent payments	(2,638)	403
Changes in operating assets and liabilities:		
Restricted cash	—	34
Accounts receivable	7,651	13,077
Inventories	2,106	1,690
Prepaid expenses, other receivables and other assets	4,843	4,583
Deferred rent	906	(421)
Accounts payable, deferred revenue, accrued expenses and other liabilities	(24,412)	(18,289)
Net cash (used in) provided by operating activities	(2,365)	8,289
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(7,532)	(3,468)
Acquisitions, net of cash acquired	(8,320)	(31,619)
Net cash used in investing activities	(15,852)	(35,087)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	1,073	1,328
Decrease in restricted cash	56	434
Payments on performance-based contingent payments	(9,454)	(2,043)
Payments on capital lease obligations	(2,210)	(1,687)
Taxes paid on-behalf of employees for withheld shares	(1,307)	(588)
Payments on debt, net	(384)	(6,306)
Borrowings on term loan	20,000	10,000
Borrowings on revolver	61,906	30,000
Payments on revolver	(58,188)	(7,800)
Debt issuance costs	—	(634)
Net cash provided by financing activities	11,492	22,704
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	643	(1,034)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,082)	(5,128)
CASH AND CASH EQUIVALENTS, beginning of period	21,781	18,128
CASH AND CASH EQUIVALENTS, end of period	$ 15,699	$ 13,000
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and capital leases	$ 3,890	$ 3,703

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

1. *OVERVIEW AND BASIS OF PRESENTATION*

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

PFSweb Overview

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

Supplies Distributors Overview

Supplies Distributors and PFSweb operate under distributor agreements with Ricoh Company Limited and Ricoh USA, Inc., a strategic business unit within the Ricoh Family Group of Companies, (collectively hereafter referred to as “Ricoh”), under which Supplies Distributors acts as a distributor of various Ricoh products. The majority of Supplies Distributors’ revenue is generated by its sale of product purchased from Ricoh.

Supplies Distributors has obtained financing to fund certain working capital requirements for the sale of primarily Ricoh products. Pursuant to the transaction management services agreements between PFSweb and Supplies Distributors, PFSweb provides to Supplies Distributors transaction management and fulfillment services, such as managed web hosting and maintenance, procurement support, web-enabled customer contact center services, customer relationship management, financial services including billing and collection services, information management, and international distribution services. Supplies Distributors does not have its own sales force and relies upon Ricoh’s sales force and product demand generation activities for its sale of Ricoh products. Supplies Distributors sells its products in the United States, Canada and Europe.

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 clients’ customer, and records product revenue net of cost of product revenue as a component of service fee revenue. PFSweb also provides various transaction management services to Supplies Distributors under these arrangements.

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

Basis of Presentation

The interim condensed consolidated financial statements as of September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments necessary for a fair presentation of the Company’s financial position as of September 30, 2016, its results of operations for the three and nine months ended September 30, 2016 and 2015 and its cash flows for the nine months ended September 30, 2016 and 2015. Certain prior-year amounts have been reclassified to conform to the current year's presentation. Results of the Company’s operations for interim periods may not be indicative of results for the full fiscal year.

2. ***SIGNIFICANT ACCOUNTING POLICIES***

Principles of Consolidation

All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the condensed consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 in the section entitled "Risk Factors." Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's condensed consolidated financial statements are fairly stated in accordance with U.S. GAAP, and provide a fair presentation of the Company's financial position and results of operations.

Revenue and Cost Recognition

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

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

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

Service Fee Revenue Activity

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

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

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

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

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

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

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

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

Product Revenue Activity

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

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

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

Accounts Receivable

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

Deferred Revenues and Deferred Costs

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

Advances to Affiliates

Priority Fulfillment Services, Inc. (“PFS”) a wholly-owned subsidiary of PFSweb, Inc. has made advances to Supplies Distributors that are evidenced by a Subordinated Demand Note (the “Subordinated Note”). Under the terms of certain of Supplies Distributors’ debt facilities, the outstanding balance of the Subordinated Note cannot be decreased to less than $2.5 million without prior approval of certain of Supplies Distributors’ lenders. As of September 30, 2016 and December 31, 2015, the outstanding balance of the Subordinated Note was $2.5 million. The Subordinated Note is eliminated in the Company’s condensed consolidated financial statements.

Concentration of Business and Credit Risk

One service fee client relationship represented approximately 10% and 13% of the Company’s consolidated total revenues during the nine months ended September 30, 2016 and 2015, respectively. No customer or service fee clients exceeded 10% of consolidated accounts receivable as of September 30, 2016 or 2015.

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

	Nine Months Ended September 30,	
	2016	2015
Service Fee Revenue (as a percentage of total Service Fee Revenue):		
Client 1	10%	13%
Product Revenue (as a percentage of total Product Revenue):		
Customer 1	13%	15%
Customer 2	15%	14%

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

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

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

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

Inventories

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

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

Operating Leases

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

Property and Equipment

The Company’s property and equipment held under capital leases totaled approximately $5.4 million and $5.5 million, net of accumulated amortization of approximately $5.2 million and $4.6 million, at September 30, 2016 and December 31, 2015, respectively. Depreciation and amortization expense related to capital leases during three months ended September 30, 2016 and 2015 was $.08 million and $.07 million, respectively. Depreciation and amortization expense related to capital leases during nine months ended September 30, 2016 and 2015 was $2.1 million and $1.7 million, respectively.

Income Taxes

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

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately $0.5 million and $0.4 million in the three months ended September 30, 2016 and 2015, respectively, and $1.1 million and $0.6 million in the nine month periods ended September 30, 2016 and 2015, respectively. Income taxes of approximately $0.1 million were paid by the Company in both the three months ended September 30, 2016 and 2015, and $0.7 million was paid by the Company during both the nine month periods ended September 30, 2016 and 2015.

Impact of Recently Issued Accounting Standards

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

The Company has not yet adopted and is currently assessing the potential effect of the following pronouncements on its condensed consolidated financial statements and related disclosures:

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for the fiscal year beginning January 1, 2018, with early adoption permitted for fiscal years beginning January 1, 2017. The FASB has also issued the following standards which clarify ASU 2014-09 and have the same effective date as the original standard:

- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net);*
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing; and*
- ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.*

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

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

3. ***ACQUISITIONS***

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

Acquisition Related Expenses

The acquisitions discussed below are expected to enhance the Company’s overall service offering to its existing clients and customers as well as support anticipated growth opportunities. For the three months ended September 30, 2016 and 2015, acquisition related expenses were $0.1 million and $1.7 million, respectively, and for the nine months ended September 30, 2016 and 2015, acquisition related expenses were $1.7 million and $3.0 million, respectively, and recognized in selling, general and administrative expenses in the condensed consolidated statements of operations.

2016 Acquisition

Acquisition of Conexus

On June 8, 2016, PFSweb, Inc. acquired the outstanding capital stock of Conexus, an eCommerce system integrator that provides strategic consulting, system integration, and managed services for leading businesses and technology companies. Conexus maintains primary operations in Basingstoke, Hampshire (U.K.). The purchase price for the shares consists of (i) an initial cash payment of £5,855,000 (approximately $8.5 million), subject to a post-closing adjustment based upon a May 31, 2016 balance sheet analysis, and (ii) up to an aggregate maximum of £1,445,000 (approximately $1.9 million at September 30, 2016), subject to Conexus achieving certain operational and financial targets during the post-closing period ending December 31, 2016 (the “Earn-out Payments”), subject to possible offsets for indemnification and other claims arising under the purchase agreement. Up to 40% (but not to exceed £450,000) (approximately $0.6 million at September 30, 2016) of the Earn-out Payments may be paid by the issuance of restricted shares of PFSweb common stock, based on its then current market value at the time of issuance. As of September 30, 2016, as a result of updated Conexus financial projections for the 2016 earn-out period, the Company has not recorded a liability applicable to the estimated Earn-out Payments and the estimated performance-based liability was reduced from $0.6 million as of June 30, 2016 to $0 as of September 30, 2016.

The results of operations of Conexus have been included in the Company's condensed consolidated financial statements since the date of acquisition which, for the three and nine months ended September 30, 2016, includes $1.7 million and $2.2 million, respectively, of service fee revenue and approximately $41,000 and $0.4 million, respectively, of net loss. The net loss for Conexus for the nine months ended September 30, 2016 included approximately $0.5 million of acquisition related expenses. Additional acquisition related expenses applicable to the Conexus acquisition of approximately $0.1 million and $1.1 million were also incurred by the Company during the three and nine months ended September 30, 2016, respectively. The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods. The Company is in the process of finalizing the purchase price allocation and, accordingly, the following preliminary allocation of the purchase price is subject to adjustment.

The following table summarizes the preliminary estimated fair value of the tangible and intangible assets acquired and liabilities assumed (in thousands):

Cash	$	156
Accounts receivable, net		1,451
Other receivables		909
Property and equipment		200
Other assets		82
Intangible assets		2,181
Total assets acquired		4,979
Total liabilities assumed		2,254
Net assets acquired		2,725
Goodwill		6,055
Total purchase price	$	8,780

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

Aggregate cash payments	$	8,476
Performance-based contingent payments (based on estimated fair value at acquisition date)		553
Estimated post-closing balance sheet reconciliation adjustment		(249)
Total purchase price	$	8,780

The excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed was allocated to goodwill. Total goodwill of $6.1 million, none of which is deductible for tax purposes, is not being amortized but is subject to an annual impairment test using a fair-value-based approach.

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

			September 30, 2016				
		Fair Value at Acquisition		**Accumulated Amortization**		**Net Carrying Value**	**Estimated Useful Life from Acquisition**
Developed technology	$	727	$	(73)	$	654	2.5 years
Customer relationships		1,454		(256)		1,198	4.5 years
Total definite lived intangible assets	$	2,181	$	(329)	$	1,852	

2015 Acquisitions

Acquisition of Moda

On June 11, 2015, PFSweb, Inc. acquired the outstanding capital stock of Moda, an eCommerce system integrator and consultancy that provides unique digital experiences for fashion brands and retailers. Moda maintains primary operations in London. Consideration paid for the shares included an initial £650,000 (approximately $1.0 million) cash payment and 16,116 unregistered shares of Company stock (approximately $0.2 million in value as of the acquisition date). The purchase agreement provides for future earn-out payments (“Moda Earn-out Payments”) payable in 2017 based on Moda’s achievement of certain 2016 financial targets, with no guaranteed minimum and an aggregate maximum of £600,000 (approximately $0.8 million), subject to possible offsets for indemnification and other claims arising under the purchase agreement. As of September 30, 2016, as a result of updated 2016 Moda financial projections, the Company has not recorded a liability applicable to the estimated Moda Earn-out Payments and the estimated performance-based contingent liability for the Moda Earn-out Payments was reduced from $0.3 million as of December 31, 2015 to $0 as of September 30, 2016 .

The results of operations of Moda have been included in the Company's condensed consolidated financial statements since the date of acquisition.

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

Cash and cash equivalents	$	126
Accounts receivable		335
Property and equipment		27
Identifiable intangibles		340
Other assets		23
Total assets acquired		851
Total liabilities assumed		658
Net assets acquired		193
Goodwill		1,287
Total purchase price	$	1,480

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

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

The excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed was allocated to goodwill. Total goodwill of $1.3 million, none of which is deductible for tax purposes, is not being amortized but is subject to an annual impairment test using a fair-value-based approach.

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

		September 30, 2016		December 31, 2015		Estimated
	Fair Value at Acquisition	Accumulated Amortization	Net Carrying Value	Accumulated Amortization	Net Carrying Value	Useful Life from Acquisition
Customer relationships	$ 309	$ (245)	$ 64	$ (141)	$ 168	1.6 years
Non-compete agreements	31	(28)	3	(12)	19	2.5 years
Total definite lived intangible assets	$ 340	$ (273)	$ 67	$ (153)	$ 187	

Acquisition of CrossView

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

Consideration paid by the Company included an initial cash payment of $30.7 million and 553,223 unregistered shares of Company common stock (approximately $6.3 million in value as of the acquisition date). The initial cash payment was subject to adjustment based upon a post-closing balance sheet reconciliation. In addition, the purchase agreement provides for future earn-out payments (“CrossView Earn-out Payments”) payable in 2016, 2017 and 2018 based on the achievement of certain 2015, 2016 and 2017 financial targets. The CrossView Earn-out Payments have no guaranteed minimum and an aggregate maximum of $18.0 million and are subject to possible offsets for indemnification and other claims. In the quarter ended June 30, 2016, the Company paid an aggregate of $7.9 million in settlement of the 2015 CrossView Earn-out Payments, of which, $1.6 million was paid by the issuance of restricted shares of Company stock. The Company will pay 15% of any 2016 and 2017 earn-outs payments in restricted shares of Company common stock, based on its current market value at the time of issuance. As of September 30, 2016, the Company has recorded a total liability of $0.4 million applicable to the remaining projected CrossView Earn-out Payments, which is included in other liabilities in the condensed consolidated balance sheets. This estimated performance-based liability was reduced from $10.2 million as of December 31, 2015 to $0.4 million as of September 30, 2016 following $7.9 million of payments during the nine months ended September 30, 2016 and as a result of updated CrossView financial projections for the 2016 and 2017 earn-out periods.

The results of operations of CrossView have been included in the Company's condensed consolidated financial statements since the date of acquisition.

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

Accounts receivable	$	7,550
Property and equipment		441
Other assets		149
Identifiable intangibles		9,050
Total assets acquired		17,190
Total liabilities assumed		2,556
Net assets acquired		14,634
Goodwill		30,221
Total purchase price	$	44,855

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

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

The excess of the purchase price over the fair value of the net identifiable assets acquired and liabilities assumed was allocated to goodwill. Total goodwill of $30.2 million, which, given the structure of the acquisition, is expected to be deductible for tax purposes over 15 years.

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

		September 30, 2016		December 31, 2015		
	Fair Value at Acquisition	Accumulated Amortization	Net Carrying Value	Accumulated Amortization	Net Carrying Value	Estimated Useful Life from Acquisition
Trade names	$ 1,100	$ (513)	$ 587	$ (183)	$ 917	2.5 years
Non-compete agreements	300	(117)	183	(42)	258	3 years
Customer relationships	6,800	(2,762)	4,038	(1,394)	5,406	9 years
Developed technology	850	(393)	457	(140)	710	2.5-3 years
Total definite lived intangible assets	$ 9,050	$ (3,785)	$ 5,265	$ (1,759)	$ 7,291	

Performance-Based Contingent Payment

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

	2016	2015
As of January 1,	$ 14,157	$ 5,392
CrossView earn-out payment in common stock and cash	(7,942)	—
LAL earn-out payment in common stock and cash	(2,000)	(950)
REV earn-out payment in common stock and cash	(1,750)	(1,393)
Value recorded at acquisition - CrossView	—	12,723
Value recorded at acquisition - Conexus	553	—
Value recorded at acquisition - Moda	—	480
Change in balance due	(2,638)	403
As of September 30,	$ 380	$ 16,655

Pro Forma Information

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

	For the Three Months Ended September 30, 2016	For the Three Months Ended September 30, 2015	For the Nine Months Ended September 30, 2016	For the Nine Months Ended September 30, 2015
Total revenues	$ 79,910	$ 73,425	$ 235,194	$ 219,727
Net loss	(1,039)	(2,043)	(4,352)	(8,163)
Basic and diluted net loss per share	(0.06)	0.11	(0.23)	(0.47)

The unaudited pro forma total revenues and pro forma net loss are not necessarily indicative of the consolidated results of operations for future periods or the results of operations that would have been realized had the Company consolidated Conexus and CrossView during the periods noted. Moda did not meet the significance test requirements and thus is not included in the pro forma presentation above.

4. *GOODWILL AND IDENTIFIABLE INTANGIBLES, NET*

Goodwill acquired through acquisitions is recognized as part of the PFSweb segment and was $45.9 million and $39.8 million as of September 30, 2016 and December 31, 2015, respectively. As discussed in note 3, the Company acquired Conexus in June of 2016 and recognized goodwill of $6.1 million. The Company determined fair value using a combination of the discounted cash flow, market multiple and market capitalization valuation methods.

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

	September 30, 2016			December 31, 2015			
	Fair Value at Acquisition	Accumulated Amortization	Net Carrying Value	Fair Value at Acquisition	Accumulated Amortization	Net Carrying Value	Estimated Useful Life from Acquisition
Trade names	$ 1,250	$ (719)	$ 531	$ 1,250	$ (266)	$ 984	2.25 - 2.5 years
Non-compete agreements	575	(296)	279	575	(159)	416	1- 3.5 years
Leasehold	45	(38)	7	45	(24)	21	2.5 years
Customer relationships	10,433	(4,367)	6,066	8,979	(2,378)	6,601	1.6 - 9 years
Developed technology	1,577	(393)	1,184	850	(140)	710	2.5-3 years
Other intangibles	492	(434)	58	468	(390)	78	9 years
Total definite lived intangible assets	$ 14,372	$ (6,247)	$ 8,125	$ 12,167	$ (3,357)	$ 8,810	

Definite Lived Intangible Asset Amortization

For the three months ended September 30, 2016 and 2015, amortization expense related to acquired definite lived intangible assets was $1.2 million and $1.0 million, respectively, and for the nine months ended September 30, 2016 and 2015, amortization expense was $2.9 million and $1.5 million, respectively, and recognized in selling, general and administrative expenses in the condensed consolidated statements of operations. The estimated amortization expense for each of the next five years is as follows (in thousands):

Remaining 2016	$	1,186
2017		3,220
2018		1,780
2019		748
2020		526
2021 and thereafter		665

5. *NET LOSS PER COMMON SHARE*

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

The following equity awards have been excluded from the calculation of diluted net loss per share as their effect would be anti-dilutive as of September 30, 2016:

	As of September 30,	
(shares in thousands)	**2016**	**2015**
Stock options	1,209	1,371
Performance shares	273	545
Deferred stock units	104	65
Total anti-dilutive stock options, performance shares and deferred stock units	1,586	1,981

6. *STOCK AND STOCK OPTIONS*

Total stock-based compensation expense was $0.3 million and $1.5 million for the three months ended and $1.4 million and $3.4 million for the nine months ended, September 30, 2016 and 2015, respectively, and were included as a component of selling, general and administrative expenses in the condensed consolidated statements of operations.

On March 23, 2015, pursuant to the Company’s Employee Stock and Incentive Plan, as amended and restated (“the Plan”), the Company issued approximately 12,000 Other Stock-Based Awards and approximately 38,000 Restricted Stock Unit Awards (as such terms are defined in the Plan) to certain of the Company’s executive officers and senior management. The Restricted Stock Unit Awards are subject to three year vesting beginning in 2015 based on continued employment. The Company also issued additional Restricted Stock Units and Performance-Based Share Awards (as such terms are defined in the Plan) to the Company’s executives and senior management. Under the terms of these additional 2015 awards, the determination of the number of Restricted Stock Units and Performance Shares that each such individual received was subject to, and calculated by reference to, the achievement by the Company of a performance goal measured by a range of targeted financial performance, as defined, for 2015, as well as, for certain of the Restricted Stock Units, individual performance goals, as defined. Based on the Company’s 2015 results, the Company issued an aggregate of approximately 283,000 Performance Shares and 84,000 Restricted Stock Units for 2015. The Performance Shares are subject to annual vesting based upon continued employment and either the achievement of a defined annual financial target or for certain of the Performance Shares, the comparative performance (on an annual and cumulative basis) of the Company’s common stock on NASDAQ compared to the Russell Micro Cap Index.

During 2016, the Company issued additional Restricted Stock Units and Performance-Based Share Awards (as such terms are defined in the Plan) to certain of the Company’s executives and senior management. Under the terms of these 2016 awards, the number of restricted stock units and performance shares that each such individual may receive is subject to, and calculated by reference to, the achievement by the Company of a performance goal measured by a range of targeted financial performance, as defined, for 2016, as well as, for certain of the restricted stock units, individual performance goals, as defined. Assuming achievement of the highest financial and individual performance goal, the aggregate maximum number of restricted stock units is approximately 91,000 and the aggregate maximum number of performance shares is approximately 282,000, which performance shares are subject to annual vesting based upon continued employment and, for certain of the performance shares, the achievement of a defined annual financial target or the comparative performance (on an annual and cumulative basis) of the Company's common stock on NASDAQ compared to the Russell Micro Cap Index.

7. ***VENDOR FINANCING***

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to $13.0 million. The agreement has no stated maturity date and provides either party the ability to exit the facility following a 90-day notice. Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, the Company has classified the outstanding amounts under this facility, which were $8.3 million and $8.2 million as of September 30, 2016 and December 31, 2015, respectively, as accounts payable in the condensed consolidated balance sheets. As of September 30, 2016, Supplies Distributors had no available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. The credit facility also contains financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $2.5 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (4.00% as of September 30, 2016). The facility also includes a monthly service fee. As of September 30, 2016, the Company was in compliance with all financial covenants.

8. ***DEBT AND CAPITAL LEASE OBLIGATIONS***

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

	September 30, 2016	December 31, 2015
U.S. Credit Agreement		
Revolver	$ 23,000	$ 19,283
Term loan	30,000	10,000
Equipment loan	1,824	—
Debt issuance costs	(562)	(671)
Master lease agreements	6,042	6,644
Other	117	135
Total	60,421	35,391
Less current portion of long-term debt	5,672	3,153
Long-term debt, less current portion	$ 54,749	$ 32,238

U.S. Credit Agreement

In August 2015, PFSweb, Inc. and its U.S. subsidiaries entered into a credit agreement ("Credit Agreement") with Regions Bank, as agent for itself and one or more future lenders including Bank of America N.A. and HSBC Bank USA, National Association ("the Lenders"). Under the Credit Agreement, and subject to the terms set forth therein, the Lenders have agreed to provide PFS with a revolving loan facility for up to $32.5 million and a term loan facility for up to $30 million through August 5, 2020. Subject to the terms of the Credit Agreement, PFS has the ability to increase the total loan facilities to $75 million. Availability under the revolving loan facility may not exceed a borrowing base of eligible accounts receivable (as defined). As of September 30, 2016, the Company had $9.5 million available credit under the revolving loan facility and no remaining available credit under the term loan facility. Advances under the revolving loan portion of the Credit Agreement are due and payable on August 5, 2020. Term loan advances amortize during the five year term of the Credit Agreement based upon scheduled percentage payments with the then remaining outstanding balance (potentially up to 65% of the amount borrowed) due on August 5, 2020. Borrowings under the Credit Agreement accrue interest at a variable rate based on prime rate or Libor, plus an applicable margin. As of September 30, 2016, the weighted average interest rates on the revolving loan facility and the term loan facility were 3.28% and 2.90%, respectively. In connection with the Credit Agreement, the Company paid $0.7 million of fees, which are being amortized through the life of the Credit Agreement and are reflected as a net reduction in debt. The Credit Agreement is secured by a lien on substantially all of the assets of Company and its U.S. subsidiaries and a pledge of 65% of the shares of certain of the Company's foreign subsidiaries. The Credit Agreement contains cross default provisions, various restrictions upon the Company's ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to subsidiaries, affiliates and related parties, make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants, as defined, of a minimum consolidated fixed charge ratio and a maximum consolidated leverage ratio. In June 2016, PFSweb also entered into a Master Agreement with Regions Bank to provide equipment loans financing for certain capital expenditures. As of September 30, 2016, there was approximately $1.8 million outstanding under the Equipment Loans Master Agreement.

Debt Covenants

To the extent the Company or any of its subsidiaries fail to comply with its covenants applicable to its debt or vendor financing obligations, including the periodic financial covenant requirements, such as profitability and cash flow, and required level of shareholders' equity or net worth, (as defined), the Company would be required to obtain a waiver from the lender or the lender would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral and enforcement of payment under the Company parent guarantee. Any acceleration of the repayment of the credit facilities may have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. As of and for the nine months ended September 30, 2016, the Company was in compliance with all debt covenants.

Master Lease Agreements

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

9. *SEGMENT INFORMATION*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues (in thousands):				
PFSweb	$ 67,768	$ 56,897	$ 194,239	$ 153,040
Business and Retail Connect	15,351	17,975	48,425	55,870
Eliminations	(3,209)	(3,689)	(10,476)	(10,705)
	$ 79,910	$ 71,183	$ 232,188	$ 198,205
Income (loss) from operations (in thousands):				
PFSweb	$ (447)	$ (2,757)	$ (2,516)	$ (6,288)
Business and Retail Connect	441	31	1,323	948
	$ (6)	$ (2,726)	$ (1,193)	$ (5,340)
Depreciation and amortization (in thousands):				
PFSweb	$ 3,797	$ 4,086	$ 11,188	$ 10,607
Business and Retail Connect	6	15	18	38
	$ 3,803	$ 4,101	$ 11,206	$ 10,645
Capital expenditures (in thousands):				
PFSweb	$ 1,049	$ 1,522	$ 7,532	$ 3,468
Business and Retail Connect	—	—	—	—
	$ 1,049	$ 1,522	$ 7,532	$ 3,468

	September 30, 2016	December 31, 2015
Assets (in thousands):		
PFSweb	$ 155,888	$ 151,064
Business and Retail Connect	37,501	50,682
Eliminations	(10,245)	(10,456)
	$ 183,144	$ 191,290

10. *RELATED PARTY TRANSACTIONS*

In September 2014, the Company purchased all of the stock of REV Solutions, Inc. and REVTech Solutions India Private Limited from Mr. Steven Stephan, an officer of the Company until September 30 2016, and other shareholders in a transaction which, in addition to a closing payment, provided for earn-out payments based on the achievement of certain metrics for each of calendar years 2014 and 2015. Since January 1, 2015, the Company paid Mr. Stephan an aggregate of $2.4 million and issued 38,574 shares of common stock as the final purchase price earn-out payments associated with such transaction.

11. *COMMITMENTS AND CONTINGENCIES*

The Company received municipal tax abatements in certain locations. In prior years, the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to the Company's tax abatement. The Company disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against the Company and the timing of the related payments has not been finalized. As of September 30, 2016, the Company believes it has adequately accrued for the expected assessment.

In connection with a client project, the Company has provided a $1.3 million performance bond which may be drawn upon in the event of a default by the Company of its obligations under the project, or, in the absence of a default, upon successful completion of the project, the bond will be returned.

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.

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

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

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2015, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

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

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee these expectations will actually be achieved. In addition, some forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expected or forecasted in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future.

Key Transactions and Events

During 2015, we were impacted by the following key transactions and events that also affect comparability of our results to prior periods and are discussed further in our Form 10-K for the year ended December 31, 2015:

- Acquired the outstanding capital stock of Moda Superbe Limited ("Moda") on June 11, 2015. The results of operations of Moda have been included in our condensed consolidated financial statements since the acquisition date.
- Completed an asset purchase agreement with CrossView, Inc. ("CrossView") and its shareholders on August 5, 2015. The results of operations of CrossView have been included in our condensed consolidated financial statements since the acquisition date.

During 2016, we acquired the outstanding capital stock of Conexus Limited ("Conexus") on June 8, 2016. The results of operations of Conexus have been included in our condensed consolidated financial statements since the acquisition date.

Overview

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

We refer to the standard PFSweb seller services financial model as the Service Fee model. In this model, our clients own the inventory and are the merchants of record and engage us to provide various infrastructure, technology and digital agency services in support of their business operations. We derive our service fee revenues from a broad range of service offerings that include digital agency and marketing, eCommerce technologies, system integration, order management, customer care, logistics and fulfillment, financial management and professional consulting. We offer our services as an integrated solution, which enables our clients to outsource their complete ecommerce needs to a single source and to focus on their core competencies though clients are also able to select individual or groupings of our various service offerings on an à la carte basis. We currently provide services to clients that operate in a range of vertical markets, including technology manufacturing, computer products, cosmetics, fragile goods, coins and collectibles, apparel, telecommunications, consumer electronics and consumer packaged goods, among others.

In the Service Fee model, we typically charge for our services on a cost-plus basis, a percent of shipped revenue basis, a time and materials, project or retainer basis for our professional services, or a per-transaction basis, such as a per-labor hour basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors.

Many of our service fee contracts involve third-party vendors who provide additional services, such as package delivery. The costs we are charged by these third-party vendors for these services are often passed on to our clients. Our billings for reimbursements of these costs and other 'out-of-pocket' expenses include travel, shipping and handling costs and telecommunication charges and are included in pass-through revenue.

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 condensed consolidated statement of operations.

Finally, our Retail model allows us to purchase inventory from the client. In this model, we place the initial and replenishment purchase orders with the client and take ownership of the product upon delivery to our facility. In this model, depending on the terms of our client arrangements, we may own the inventory and the accounts receivable arising from our product sales. Under the Retail model, depending upon the product category and sales characteristics, we may require the client to provide product price protection as well as product purchase payment terms, right of return, and obsolescence protection appropriate to the product sales profile. Depending on the terms of our client arrangements in the Retail model, we record in our condensed consolidated statement of operations either: 1) product revenue as a component of product revenue, or 2) product revenue net of cost of product revenue as a component of service fee revenue. In general, we seek to structure client relationships in our Retail model under the net revenue approach to more closely align with our service fee revenue financial presentation and mitigate inventory ownership, although we have one client still utilizing the gross revenue approach. Freight costs billed to customers are reflected as components of product revenue. This business model generally requires significant working capital, for which we have credit available either through credit terms provided by our clients or under senior credit facilities.

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

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our Service Fee and Agent models is driven by two main elements: new client relationships and organic growth from existing clients. We focus our sales efforts on larger contracts with brand-name companies within four primary target markets, health and beauty, home goods and collectibles, fashion and consumer packaged goods, which, by nature, require a longer duration to close but also have the potential to be higher quality and longer duration engagements. The acquisitions of Moda in June 2015, CrossView in August 2015 and Conexus in June 2016 expanded our service offering capabilities and added new client relationships, which we currently expect to enhance our growth opportunities.

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

We continue to monitor and control our costs to focus on profitability. While we are targeting our new service fee contracts to yield incremental gross profit, we also expect to incur incremental investments in technology development, operational and support management and sales and marketing expenses to help generate growth.

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

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

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

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

Selling, General and Administrative expenses - consist of expenses such as compensation and related expenses for sales and marketing staff, distribution costs (excluding freight) applicable to the Supplies Distributors business and the Retail model, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses.

Results of Operations for the Interim Periods Ended September 30, 2016 and 2015

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

	For the Three Months Ended September 30,			% of Net Revenues		For the Nine Months Ended September 30,			% of Net Revenues	
	2016	2015	Change	2016	2015	2016	2015	Change	2016	2015
Revenues										
Service fee revenue	$ 53.8	$ 45.5	$ 8.3	67.3%	64.0%	$154.2	$121.3	$ 32.9	66.4%	61.2%
Product revenue, net	11.7	14.4	(2.7)	14.6%	20.3%	36.7	44.7	(8.0)	15.8%	22.6%
Pass-through revenue	14.5	11.2	3.3	18.1%	15.8%	41.3	32.2	9.1	17.8%	16.2%
Total net revenues	80.0	71.1	8.9	100.0%	100.1%	232.2	198.2	34.0	100.0%	100.0%
Cost of Revenues										
Cost of service fee revenue (1)	36.9	30.2	6.7	68.6%	66.3%	103.5	82.0	21.5	67.1%	67.6%
Cost of product revenue (2)	11.0	13.7	(2.7)	94.2%	95.0%	34.6	42.3	(7.7)	94.5%	94.6%
Pass-through cost of revenue (3)	14.5	11.2	3.3	100.0%	100.0%	41.3	32.2	9.1	100.0%	100.0%
Total cost of revenues	62.4	55.1	7.3	78.0%	77.4%	179.4	156.5	22.9	77.3%	78.9%
Service fee gross profit	16.9	15.3	1.6	31.4%	33.7%	50.7	39.3	11.4	32.9%	32.4%
Product revenue gross profit	0.7	0.7	—	5.8%	5.0%	2.1	2.4	(0.3)	5.5%	5.4%
Pass-through gross profit	—	—	—	—	—	—	—	—	—	—
Total gross profit	17.6	16.0	1.6	22.0%	22.6%	52.8	41.7	11.1	22.7%	21.1%
Selling General and Administrative expenses	17.6	18.8	(1.2)	22.0%	26.4%	53.9	47.1	6.8	23.2%	23.7%
Loss from operations	—	(2.8)	2.8	—	(3.9)%	(1.1)	(5.4)	4.3	(0.5)%	(2.6)%
Interest expense, net	0.7	0.6	0.1	0.9%	1.0%	1.9	1.2	0.7	0.8%	0.6%
Loss before income taxes	(0.7)	(3.4)	2.7	(0.9)%	(4.8)%	(3.0)	(6.6)	3.6	(1.3)%	(3.2)%
Income tax expense, net	0.3	0.3	—	0.4%	0.3%	1.0	0.7	0.3	0.4%	0.3%
Net loss	$ (1.0)	$ (3.7)	$ 2.7	(1.3)%	(5.1)%	$ (4.0)	$ (7.3)	$ 3.3	(1.7)%	(3.5)%

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

Service Fee Revenue. The increase in service fee revenue for the three and nine months ended September 30, 2016, as compared to the same period of the prior year, was primarily due to the impact of expanded and new client relationships, including service fee revenues generated by our acquired subsidiaries Moda in June 2015, CrossView in August 2015 and Conexus in June 2016, partially offset by the conclusion or reduction of operations of several client programs that were in effect during the three and nine months ended September 30.

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

	Three Months	Nine Months
Period ended September 30, 2015	$ 45.5	$ 121.3
New service contract relationships	10.6	19.6
Change in existing client service fees	1.9	20.4
Terminated client relationships not included in 2016 revenue	(4.2)	(7.1)
Period ended September 30, 2016	$ 53.8	$ 154.2

When considering client relationships, we define an existing client to be a client from whom we earned revenue in both the current and prior period; we define a new client to be a client from whom we only earned revenue in the current period; and we define a terminated client as a client from whom we only earned revenue in the prior period. The growth of existing client relationships includes the benefit, in the three and nine months ended September 30, 2016 periods, of a full period of client activity applicable to client relationships acquired in conjunction with the Moda acquisition in June 2015 and CrossView acquisition in August 2015, as opposed to only a partial period of revenue in the related 2015 periods. The new service contract relationships include an aggregate of approximately $1.7 million and $2.1 million of revenue applicable to Conexus in the three and nine months ended September 30, 2016, respectively. Service fee revenue for the three and nine month ended September 30, 2016 includes approximately $1.4 million and $3.8 million, respectively, of service fee revenues from clients who concluded their relationship with us during 2016. Based on current client projections, we expect the reduction in revenue from terminated client programs to be more than offset by service fee revenue generated in 2016 by new or expanded client opportunities and revenues generated by our newly acquired subsidiaries. For calendar year 2016, we are currently targeting an increase in service fee revenues of approximately 20-23% as compared to calendar year 2015, including the impact of a full year of operations for our CrossView and Moda subsidiaries versus a partial year in 2015 and the impact of our Conexus acquisition in 2016.

Product Revenue, net. Product revenue was $11.7 million for the three months ended September 30, 2016, which represents a decrease of $2.7 million, or 19.1% as compared to the same quarter of the prior year. In the nine months ended September 30, 2016 product revenue was $36.7 million, which represents a decrease of $8.0 million, or 18.0%, as compared to the same period of the prior year. This reduction in revenue is primarily due to the operational restructuring by Ricoh of its business, including discontinuance of certain product lines, which has resulted, and is expected to continue to result, in lower product revenue from the sale of Ricoh products. We currently expect product revenue to continue to decline and be approximately $45 million to $50 million for calendar year 2016.

Cost of Service Fee Revenue. Gross profit as a percentage of service fees decreased to 31.4% in three month period ended September 30, 2016 from 33.7% in the same period of 2015. During 2016, we have implemented three new, large fulfillment solutions in the U.S. along with several other engagements. The decline in gross margin for the three months ended September 30, 2016 is primarily due to incremental facility, labor and other costs incurred to support the setup and launch of new client relationships, especially for one of these new clients whose unique business model led to unanticipated operational requirements requiring remediation to the solution while also supporting the client’s seasonal peak. The impact of these higher labor and operating costs was partially offset by the benefit of higher margin project activity and higher margin professional services activity, including our agency and technology services, which have been further bolstered by our acquisition of Conexus in June 2016.

In the nine months ended September 30, 2016, gross profit as a percentage of service fees increased to 32.9% compared to 32.4% in the same period 2016. The gross margin is benefitted by the increased percentage of our service fees being generated from our higher margin professional services activity, including our agency and technology services, which have been further bolstered by our acquisitions of Moda and CrossView in mid-2015 and Conexus in June 2016. The gross profit percentage in each period included the benefit of higher margin project activity. The improvement in gross profit percentage was partially offset by certain facility and client start-up expenses incurred related to new service contract relationships and, during the nine months ended September 30, 2016, higher than expected labor and operating costs incurred for a new U.S. fulfillment client.

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

Cost of Product Revenue. Cost of product revenue decreased by $2.7 million, or 19.8%, to $11.0 million in the three months ended September 30, 2016 which resulted in a gross profit margin of $0.7 million, or 5.8% of product revenue, for the three months ended September 30, 2016, compared to $0.7 million gross profit margin, or 5.0% of product revenue, for the comparable 2015 period. Cost of product revenue decreased by $7.7 million, or 18.0% in the nine months ended September 30, 2016. The resulting gross profit margin was $2.1 million, or 5.5% of product revenue, for the nine months ended September 30, 2016 and $2.4 million, or 5.4% of product revenue, for the comparable 2015 period. We currently expect our product revenue gross profit margin to be approximately 5% for calendar year 2016.

Selling, General and Administrative (“SG&A”) Expenses. SG&A expenses for the three months ended September 30, 2016 and 2015 were $17.6 million and $18.8 million, respectively. As a percentage of total net revenues, SG&A expenses were 22.0% in the three months ended September 30, 2016 and 26.4% in the corresponding prior year period. In the nine months ended September 30, 2016, SG&A expenses were $53.9 million, or 23.2% of total net revenue, as compared to $47.1 million, or 23.7% of total net revenue in the comparable 2015 period. The three months ended September 30, 2016 include approximately $2.7 million applicable to our new Conexus and CrossView subsidiaries (including $1.0 million of amortization of acquisition related intangible assets) which were either not yet acquired as of September 30, 2015 or not included for the full quarter ended September 30, 2015. Acquisition and restructuring related expenses were a net benefit of $0.5 million in the three months ended September 30, 2016, including a $1.0 million benefit resulting from revised estimates of certain performance-based contingent payments based on our current 2016 and 2017 projections results for Moda, CrossView and Conexus, and a $2.6 million expense in the three months ended September 30, 2015. Excluding the acquisition and restructuring related activity and amortization of acquired identifiable intangibles assets in the three months ended September 30, 2016 and 2015, SG&A expenses were 21.2% and 21.1% of total revenues in the three months ended September 30, 2016 and 2015, respectively. The remaining increases in SG&A percentage are primarily due to increases in personnel related expenses to support our professional services business activity, as well as an sales and marketing activities and facility costs to support our growth, partially offset by a reduction in stock-based compensation expense.

SG&A for the nine months ended September 30, 2016, includes $9.4 million applicable to our new Conexus, CrossView and Moda subsidiaries (including $2.5 million of amortization of acquisition related intangible assets) which were either not yet acquired as of September 30, 2015 or not included for the full nine months ended September 30, 2015. Acquisition and restructuring related expenses were a net benefit of $0.5 million in the nine months ended September 30, 2016, including a $2.9 million benefit resulting from revised estimates of certain performance-based contingent payments based on our current 2016 and 2017 projections results for Moda, CrossView and Conexus, and a $4.5 million expense in the nine months ended September 30, 2015. Excluding the acquisition and restructuring related activity and amortization of acquired identifiable intangibles assets in the nine months ended September 30, 2016 and 2015, SG&A expenses were 22.9% and 20.4% of total revenues in the nine months ended September 30, 2016 and 2015, respectively. The remaining increase in the SG&A percentage is primarily due to increases in personnel to support our professional services business activity related expenses, as well as sales and marketing activities and facility costs to support our growth, partially offset by a reduction in stock-based compensation.

We currently expect our SG&A expenses will continue to increase in 2016, as compared to 2015, due to acquisitions as we include a full year of expenses for Moda and CrossView and include the impact of Conexus, incur a full year of amortization for identifiable intangible assets acquired, incur incremental personnel related costs applicable to our professional services business activity and incur additional expenditures related to our sales and marketing activities and facility costs. Additionally, future adjustments in fair value estimates of our performance-based contingent payments, if any, applicable to our Moda, CrossView and Conexus acquisitions will continue to be reflected as increases or decreases in SG&A expense.

Income Taxes. We recorded a tax provision associated primarily with state income taxes and the majority of our international operations. A valuation allowance has been provided for the majority of our U.S. domestic net deferred tax assets, which are primarily related to our net operating loss carryforwards, and for certain foreign deferred tax assets.

Liquidity and Capital Resources

During the nine months ended September 30, 2016, net cash used in operations was $2.4 million, primarily due to a:

- $ 24.4 million net decrease in accounts payable, deferred revenue, accrued expenses and other liabilities, primarily due to reduced service fee business liabilities as a result of reduced business volumes following the seasonally higher fourth quarter of 2015 and a reduction in product revenue.

The use of cash was partially offset by a:

- $7.7 million decrease in accounts receivable primarily applicable to reduced service fee revenue activity as compared to our seasonally higher fourth quarter 2015;
- $4.8 million decrease in prepaid expenses, other receivables and other assets, primarily due to timing of certain payments;
- $6.5 million of cash income before working capital changes; and
- $2.1 million decrease in inventories primarily as a result of the reduction in our Ricoh related product revenue business.

During the nine months ended September 30, 2015, we generated $8.3 million of cash from operating activities, primarily due to a:

- $13.1 million decrease in accounts receivable primarily applicable to reduced service fee revenue activity as compared to our seasonally higher fourth quarter at the end of 2014;

- $7.6 million of cash income from operations before working capital change;
- $4.6 million decrease in prepaid expenses, other receivables and other assets primarily due to the timing of certain payments; and
- $1.7 million decrease in inventories primarily as a result of the reduction in our Ricoh related product revenue business.

The generation of cash was partially offset by a:

- $18.3 million net decrease in accounts payable, deferred revenue, accrued expenses and other liabilities in part due to reduced inventory purchases as a result of a reduction in product revenue, reduced service fee business liabilities due to reduced business volumes following the seasonally higher fourth quarter at the end of 2014 and a reduction in deferred revenue due to the recognition of activity during the current year.

Cash proceeds from debt, net of any debt and capital lease payments, was $21.1 million and $24.2 million during the nine months ended September 30, 2016 and 2015, respectively. Proceeds in 2016 were used to primarily fund working capital, capital expenditures, performance-based contingent payments related to prior year acquisitions and to purchase Conexus in June 2016. In the nine months ended September 30, 2015, we paid $31.6 million of cash to purchase Moda and CrossView, net of cash acquired and an additional $2.0 million related to the REV and LAL earn-out payments.

We incurred capital expenditures, which consisted primarily of capitalized software costs and equipment purchases, of $7.5 million and $3.5 million in the nine month periods ended September 30, 2016 and 2015, respectively, exclusive of $3.9 million and $3.7 million in each period, respectively, of property and equipment acquired under debt and capital lease financing. The capital expenditures include leasehold improvements and other expenditures for expansion at certain of our facilities, of which, approximately $0.6 million were financed via tenant allowances that will also be amortized over the underlying lease terms.

Capital expenditures have historically consisted of additions to upgrade our management information systems, development of customized technology solutions to support and integrate with our service fee clients and general expansion and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures to support new contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in upgrades and additions to facilities and information technology solutions and services for the upcoming twelve months, including costs to implement new clients, will be approximately $9 million to $12 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements, debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financial results necessary to support such investments.

During the nine months ended September 30, 2016, our working capital increased to $22.8 million from $12.4 million at December 31, 2015, primarily due to utilization of long-term financing under the Company's senior bank facility to support a portion of our financing needs, including performance-based contingent payments related to prior year acquisitions and the purchase of Conexus, including its working capital, in June 2016, as well as proceeds from the issuance of common stock, partially offset by cash used to support certain purchases of property and equipment.

The purchase price for Moda includes performance-based contingent payments for future earn-out payments payable in 2017 based on Moda's 2016 financial targets, with no guaranteed minimum and a maximum of £600,000 (approximately $0.8 million). The purchase price for CrossView includes performance-based contingent payments for future earn-out payments payable in 2017 and 2018 based on CrossView's achievement of certain 2016 and 2017 financial targets, of which $8.3 million is the aggregate maximum contractual earn-out. The June 2016 purchase of Conexus provides for future contingent and earn-out payments based on Conexus' achievement of certain 2016 operational and financial targets, with no guaranteed minimum and a maximum of £1,445,000 (approximately $1.9 million). As of September 30, 2016, based on current financial projections, we have not recorded a liability applicable to the estimated Earn-out Payments for the purchase of Moda or Conexus, but we have accrued $0.4 million for future performance-based contingent payments applicable to the CrossView acquisition.

To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including the sale of equity, utilizing capital or operating leases, borrowing under our credit facilities, expanding our current credit facilities or entering into new debt agreements. No assurances can be given we will be successful in obtaining any additional financing or the terms thereof. We currently believe our cash position, financing available under our credit facilities and funds generated from operations will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries, if necessary, for at least the next twelve months.

Our term and revolving loan facilities described below contain both financial and non-financial covenants. To the extent we fail to comply with our debt covenants, including the financial covenant requirements and we are not able to obtain a waiver, the lenders would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral. An acceleration of the repayment of our credit facility obligations will have a material adverse impact on our financial condition and results of operations. We can provide no assurance we will have the financial ability to repay all such obligations. As of September 30, 2016, we were in compliance with all debt covenants. Further, non-renewal of any of our credit facilities may have a material adverse impact on our business and financial condition. Other than performance-based contingent payments applicable to our acquisitions, and our capital and operating lease commitments, we do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

We receive municipal tax abatements in certain locations. In prior years, we received notice from a municipality that we did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to our tax abatement. We disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against us and the timing of the related payments has not been finalized. As of September 30, 2016, we believe we have adequately accrued for the expected assessment.

Supplies Distributors Financing

To finance its distribution of Ricoh products in the U.S., Supplies Distributors has a short-term credit facility with IBM Credit LLC ("IBM Credit") that provides financing for eligible inventory and certain receivables up to $13.0 million. We have provided a collateralized guarantee to secure the repayment of this credit facility. The IBM Credit facility does not have a stated maturity and both parties have the ability to exit the facility following a 90-day notice. The Company has direct vendor credit terms with Ricoh to finance Supplies Distributors European subsidiary's inventory purchases.

This credit facility contains various restrictions upon the ability of Supplies Distributors and its subsidiaries to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $2.5 million, not maintain restricted cash of more than $5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries under these facilities if they are unable to do so. We have also provided a guarantee of substantially all of the obligations of Supplies Distributors and its subsidiaries to IBM and Ricoh.

PFS Financing

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

Acquisition

On June 8, 2016, PFSweb, Inc. purchased all of the outstanding shares of Conexus, Inc. ("Conexus"), an eCommerce system integrator that provides strategic consulting, system integration, and managed services for leading businesses and technology companies. Conexus maintains primary operations in Basingstoke, Hampshire (U.K.). We paid an aggregate cash payment at closing of £5,855,000 (approximately $8.5 million), subject to a post-closing adjustment to be based upon a May 31, 2016 balance sheet. In addition, we will pay up to an aggregate maximum of £1,445,000 (approximately $1.9 million at September 30, 2016) subject to Conexus achieving certain operational and financial targets during the post-closing period ending December 31, 2016 (the "Earn-out

Payments”) and subject to possible offsets for indemnification and other claims. Up to 40% (but not to exceed £450,000) (approximately $0.6 million at September 30, 2016) of the Earn-out Payments may be paid by the issuance of restricted shares of Company common stock, based on its then current market value at the time of issuance.

Seasonality

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

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

Inflation

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

Critical Accounting Policies

A description of our critical accounting policies is included in Note 2 of the condensed consolidated financial statements in our December 31, 2015 Annual Report on Form 10-K and Note 2 of this report.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”). As of September 30, 2016, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the period that ended on September 30, 2016, there was no change in internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

In addition to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission, our business, financial condition and operating results could be adversely affected by any or all of the following factors.

Risks Related to Our Business

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

As of September 30, 2016, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of Ricoh product inventory, was approximately $68.7 million. We cannot provide assurance that our credit facilities will be renewed by the lending parties. Additionally, these credit facilities include both financial and non-financial covenants, many of which also include cross default provisions applicable to other agreements. These covenants also restrict our ability to transfer funds among our various subsidiaries, which may adversely affect the ability of our subsidiaries to operate their businesses or comply with their respective loan covenants. We cannot provide assurance that we will be able to maintain compliance with these covenants. A non-renewal, default under or acceleration of any of our credit facilities may have a material adverse impact upon our business and financial condition. We have guaranteed most of the indebtedness of Supplies Distributors. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors by its lenders to the extent Supplies Distributors is unable to do so.

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

For the nine months ended September 30, 2016, one client represented approximately 10% of our service fee revenue and we currently expect this client to represent approximately 10% of our service fee revenue for calendar year 2016. Most of our client agreements state a contract expiration date, but many also include an early termination clause permitting the client to terminate the contract for convenience prior to its stated expiration date or to reduce the scope of services or delay the commencement of services to be provided under the contract. Termination, reduction, or delay of our services under a contract could result from factors unrelated to our work product or the progress of the project, such as factors related to business or financial conditions of the client, changes in client strategies or the domestic or global economy generally. The early termination, reduction or substantial delay of services with any significant client, or nonrenewal of any significant client contract, or the nonpayment of a material amount of our service fees by a significant client, could have a material adverse effect upon our business, results of operation and financial condition.

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

Sales by Supplies Distributors to two customers in the aggregate accounted for approximately 29% of Supplies Distributors' total product revenue for the nine months ended September 30, 2016 and 5% of consolidated net revenue. The loss of one or both of such customers, or non-payment of any material amount by these or any other customer, would have a material adverse effect upon Supplies Distributors' business, results of operations and financial condition.

Risks Related to Our Stock

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

As of September 30, 2016, we have issued an aggregate of (i) 1.2 million stock options outstanding to employees, directors and others with a weighted average exercise price of $7.52 per share (ii) 626,000 performance shares of common stock that may vest, subject to satisfaction of vesting conditions, over the next one to three years, (iii) 118,000 restricted stock units that may vest subject to satisfaction of vesting conditions, over the next two years, and (iv) 104,000 deferred stock units to the non-employee members of our Board of Directors under which the underlying shares will be issued upon the termination of service of the holder. The current and future issuance and/or vesting of shares of our common stock under the foregoing stock awards, performance shares and deferred stock units, sales of substantial amounts of common stock in the public market following the issuance and/or vesting of such shares, and/or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosure

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1(1)	Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.1(2)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.2(4)	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3(5)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.4(7)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2(1)	Amended and Restated By-Laws
3.2.1(3)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.2(6)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.3(7)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
4.1 (8)	Amendment No. 5 to Rights Agreement, dated as of June 18, 2015 between the Company and Computershare Inc., successor in interest to Computershare Shareowner Services LLC (formerly known as Mellon Investor Services LLC,) as successor to ChaseMellon Shareholder Services, LLC., as rights agent.
4.1 (9)	Amendment No. 6 to Rights Agreement, dated as of July 30, 2015 between the Company and Computershare Inc., successor in interest to Computershare Shareowner Services LLC (formerly known as Mellon Investor Services LLC,) as successor to ChaseMellon Shareholder Services, LLC., as rights agent.
10.1*	Second Amendment to Lease agreement dated October 20, 2016 by and between Stateline J, LLC and Priority Fulfillment Services, Inc.
10.2*	First Amendment to Lease agreement dated September 16, 2016 by and between Binyan Realty, LP and Priority Fulfillment Services, Inc.
10.3*	Second Amendment to Lease agreement dated September 16, 2016 by and between Binyan Realty, LP and Priority Fulfillment Services, Inc.
10.4*	Lease Extension and Amending agreement dated May 31, 2016 by and between M&R Commercial Properties, Inc. and Priority Fulfillment Services of Canada, Inc.
31.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.

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

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

SIGNATURES

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

Date: November 9, 2016

PFSweb, Inc.

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

Exhibit 10.1

SECOND AMENDMENT TO INDUSTRIAL LEASE

THIS AMENDMENT is made as of the Amendment Date (as hereinafter defined) by and between STATELINE J, LLC, a Delaware limited liability company ("**Landlord**") and PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("**Tenant**").

RECITALS

Landlord and Tenant have previously entered into that certain Industrial Lease Agreement dated March 18, 2016, as amended by First Amendment to Industrial Lease (the "**First Amendment**") (as amended, the "**Lease**") for the lease of space at 1620 Stateline Road (Suite 101), Southaven, Mississippi 38671 (the "**Premises**") located within Stateline Business Park, DeSoto County, Mississippi.

Landlord and Tenant desire to amend the Lease as hereinafter set forth.

NOW, THEREFORE, for and in consideration of Ten and No/100 Dollars ($10.00) and other good and valuable consideration in hand paid by each party hereto to the other, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

1. **Capitalized Terms**. All capitalized terms used herein but undefined shall have the meaning as defined in the Lease.

2. **Early Expansion**. Tenant has elected to cause the Early Expansion (defined in Special Stipulation Number 3 of the original Lease, the "**Early Expansion Stipulation**") with respect to the entire 129,600 square foot Expansion Space. The effective date of the Early Expansion shall be September 5, 2016 (the "**Early Expansion Effective Date**").

4. **Confirmation of Dates**. Landlord and Tenant hereby confirm that the Lease Commencement Date occurred on May 11, 2016 and the Base Rent Commencement Date is August 11, 2016. The First Lease Year runs from May 11, 2016 through May 31, 2017.

5. **Base Rent**. Pursuant to the Early Expansion Stipulation, in order to account for the Early Expansion, Annual Base Rent is to increase by an amount equal to $426,384.00 ($3.29 x 129,600 sf) during the period between September 5, 2016 (the Early Expansion Effective Date) and June 1, 2017 (the first day of the second Lease Year, the date on which the Expansion would have occurred if not for the Early Expansion). Therefore, Monthly Base Rent installments for the First Lease Year are hereby modified to be the following (and Section 1(d) and (e) of the original Lease and First Amendment are so modified):

Period	Monthly Base Rent
5/11/2016 – 8/10/2016:	$0.00
8/11/2016 – 9/4/2016:	$39,973.50 (plus the prorated amount for any Fractional Month)
9/5/2016 – 5/31/2017:	$76,679.50

The Base Rent amounts for periods following the First Lease Year remain unmodified from the amounts set forth in the rent schedule provided in the First Amendment.

6. **Brokers**.

(a) Representation/Warranty. Landlord and Tenant each represents and warrants to the other that neither party has engaged or had any conversations or negotiations with any broker, finder or other third party concerning the matters set forth in this Amendment who would be entitled to any commission or fee based on the execution of this Amendment.

(b) Indemnity. Landlord and Tenant each hereby indemnifies the other against and from any claims for any brokerage commissions and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, for any breach of the foregoing.

(c) Survival. The indemnity set forth in subsection (b) above shall survive the termination of the Lease for any reason.

7. **No Further Concessions**. Except as expressly provided herein, no free rent, moving allowances, tenant improvement allowances or other such financial concessions contained in the Lease shall apply to the Term as extended hereby.

8. **Amendment Date**. For purposes of this Amendment, the term "**Amendment Date**" shall mean the date upon which this Amendment is signed by Landlord or Tenant, whichever is later.

9. **Ratification of Lease**. Except as amended hereby, the Lease shall be and remain in full force and effect and unchanged. As amended hereby, the Lease is hereby ratified and confirmed by Landlord and Tenant.

10. **Inconsistencies**. To the extent the terms hereof are inconsistent with the terms of the Lease, the terms hereof shall control.

11. **Counterparts**. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, and all of which, when taken

together, shall constitute one and the same instrument. Delivery of a pdf or other electronic counterpart of this Amendment executed by a party hereto shall be deemed to constitute delivery of an original hereof executed by such party.

[signatures on next page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and sealed as of the Amendment Date.

Date:______________________

LANDLORD:

STATELINE J, LLC, a Delaware limited liability company

By: ___________________________
Name:
Title:

Date:______________________

TENANT:

PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation

By: ___________________________
Name:
Title:

[GUARANTOR]

The capitalized terms of this Consent shall have the meaning as defined in the Amendment to which this Consent is attached (the "**Second Amendmen**t"), unless otherwise defined. The undersigned, being the Guarantor of the Lease under that certain Guaranty dated March 21, 2016 from Guarantor to Stateline J, LLC, hereby consents to the Second Amendment, and acknowledges and reaffirms that the Guaranty is in full force and effect as it relates to the Lease, as amended by the Second Amendment.

Date:______________________

GUARANTOR:

PFSWEB, INC., a Delaware corporation

By: ___________________________
Name: ______________________
Title: _______________________

Attest: _________________________
Name: ______________________
Title: _______________________

[CORPORATE SEAL]

Exhibit 10.2

FIRST AMENDMENT TO LEASE AND LEASE REINSTATEMENT
[SEASONAL SPACE]

THIS FIRST AMENDMENT TO LEASE AND LEASE REINSTATEMENT (this "**Amendment**") is entered into as of September ____, 2016 (the "**First Amendment Effective Date**"), by and between **BINYAN REALTY LP** ("**Landlord**"), and **PRIORITY FULFILLMENT SERVICES, INC.**, a Delaware corporation ("**Tenant**").

<u>RECITALS:</u>

A. Tenant and Landlord executed that certain Office Lease Agreement [Seasonal Space] dated as of December 5, 2011 (the "**Lease**"), for space in the office building commonly known as Renaissance Tower, located at 1201 Elm Street, Dallas, Texas (the "**Building**").

B. By letter dated March 4, 2015, Landlord exercised its right to terminate the Lease pursuant to Section 1.104 of the Lease.

C. Tenant and Landlord desire to reinstate the Lease, as well as amend the Lease as set forth below. Unless otherwise expressly provided herein, capitalized terms used herein shall have the same meanings as designated in the Lease.

<u>AGREEMENT:</u>

In consideration of the mutual covenants and agreements contained herein and in the Lease, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1.<u>Reinstatement of Lease</u>. The parties hereby agree to reinstate the Lease, and as of the First Amendment Effective Date, the Lease shall be in full force and effect, and the Lease (as amended by this Amendment) is the only lease agreement or understanding between Landlord and Tenant affecting the Premises. Except as set forth in this Amendment, the Lease has not been modified, altered, or amended. To Landlord's knowledge as of the date of this Amendment, Tenant is not in default under any of the terms, conditions, or covenants of the Lease to be performed or complied with by Tenant and no event has occurred and no circumstance exists which, with the passage of time or the giving of notice by Landlord, or both, would constitute such a default.

2.<u>Term</u>. The Term is hereby extended to and including September 30, 2022, which date shall be the "Expiration Date."

3.<u>Permitted Use</u>. The term "Permitted Use" shall include, in addition to the Permitted Use as such term is defined in the original Lease ("**Call Center Use**"), the right to use the Premises as storage space for Tenant's furniture, office equipment and related personal property ("**Storage Use**"). Notwithstanding anything to the contrary set forth in the Lease, as amended hereby, the Premises shall be used solely for Storage Use; subject however to the terms of Section 1.103 of the Lease, as amended pursuant to Section 6 below, allowing Tenant to use the Premises for the Call Center Use.

4.<u>Occupancy Period</u>. The term "Occupancy Period" (including any references to "applicable Occupancy Period", "such Occupancy Period," "any Occupancy Period" or "each Occupancy Period") shall mean the Term.

Exhibit 10.2

5. Premises.

A. The "**Premises**" shall initially be the space on the 6th floor of the Building as more specifically described in Exhibit A attached hereto. While the Premises are located in such space on the 6th floor, Tenant and its employees shall be entitled to access the common area rest rooms on the 7th floor during any Call Center Periods (as defined below), including the right to install security access equipment on the 7th floor of the Building to facilitate the use of the common area rest rooms on such floor. The Lease as amended hereby shall control the rights and obligations of Landlord and Tenant with respect to the Premises, and Tenant shall have no further rights, and Landlord shall have no further obligations, under that certain Temporary License Agreement dated as of June 28, 2011, as amended by that certain First Amendment to Temporary License Agreement dated as of September 20, 2011 and that certain letter agreement dated May 1, 2012.

B. Landlord shall have the one-time right to relocate the Premises to the Relocation Premises (defined herein) effective as of the Relocation Effective Date (defined herein) pursuant to the terms set forth in this Section (such right referred to herein as the "**Special Relocation Right**"). Any election by Landlord to exercise the Special Relocation Right must be made by written notice to Tenant (a "**Relocation Notice**") given at least 180 days prior to the Relocation Effective Date. The term "**Relocation Premises**" as used herein shall mean the space on the 5th floor of the Building as more specifically described in **Exhibit A** attached hereto; provided, however, if Tenant's entire leased premises under the Existing Lease (as such term is defined in the Lease) is relocated either pursuant to the relocation provision set forth in the amendment to the Existing Lease entered into on or about the date hereof or pursuant to Section 15.20 of the Existing Lease, then the Relocation Premises shall be the balance of any partial floor on which Tenant's leased premises under the Existing Lease is so relocated. The term "**Relocation Effective Date**" as used herein shall mean the date selected by Landlord as the date on which the relocation of the Premises to the Relocation Premises shall be effective (but in no event prior to the date on which Landlord has delivered the Relocation Premises to Tenant in accordance with this Agreement); provided, however, that the Relocation Effective Date must occur during one of the following periods: (i) after January 31, 2017, but no later than September 1, 2017 (the "**First Relocation Period**"); or (ii) after January 31, 2018, but no later than September 1, 2018 (the "**Second Relocation Period**"). Notwithstanding anything to the contrary set forth herein, in the event that Landlord does not exercise the Special Relocation Right at least 180 days prior to the last day of the Second Relocation Period, Landlord shall be deemed to have exercised the Special Relocation Right with a Relocation Effective Date of September 1, 2018.

C. Landlord shall, at Landlord's sole cost and expense, (i) paint and install new carpet in the Relocation Premises, (ii) construct any leasehold improvements as may be necessary to create an "open plan" layout in compliance with all applicable code requirements, and (iii) to the extent the Relocation Premises are located on the 5th floor of the Building, make such improvements as are reasonably required so that the restrooms on the 5th floor are substantially consistent with the restrooms on the 3rd and 4th floors, as presently configured. Landlord shall substantially complete all such improvements at least fifteen (15) days prior to the Relocation Effective Date. In the event Landlord fails to substantially complete all such improvements (which for purposes hereof shall be deemed to have occurred only after Landlord has obtained a certificate of occupancy for the Relocation Premises to the extent required by applicable law) by such date, the Relocation Effective Date shall be extended to the 15th day after such improvements are substantially completed as Tenant's sole remedy for such failure (provided that if such extended date falls between September 2 and January 31 of any applicable year, then the Relocation Effective Date shall be extended to the following February 1).

D. Tenant shall be granted access to the Relocation Premises at least thirty (30) days prior to the Relocation Effective Date to conduct a staged move from the Premises to the Relocation Premises. Any access to the Relocation Premises pursuant to this paragraph shall (i) be in accordance with Building Rules and Regulations, (ii) not materially interfere with any of Landlord's construction activities, and (iii) be subject to all terms and conditions of the Lease applicable to the Premises (including insurance requirements), excluding, however, any obligation to pay Basic Rent or Additional Rent with respect to the Relocation Premises prior to the Relocation Effective Date.

E. Effective as of the Relocation Effective Date, (i) the term "Premises" as used in the Lease shall mean the Relocation Premises, (ii) the "Agreed Rentable Area of the Premises" shall mean the Agreed Rentable Area of the Relocation Premises, and (iii) Basic Rent shall continue to be payable at the rates specified in the Basic Rent schedule set forth in Section 7 below.

F. Within thirty (30) days after the Relocation Effective Date, Tenant shall peaceably surrender the Premises to Landlord in a condition as required for redelivery of space under the Lease. Any property not removed as required shall be conclusively presumed to have been abandoned by Tenant and Landlord may, at its option, take over possession of such property and either (x) declare the same to be the property of Landlord by written notice to Tenant, or (y) at the sole cost and expense of Tenant (not to exceed the actual, reasonable out-of-pocket cost to Landlord), remove and store and/or dispose of the same or any part thereof in any manner that Landlord shall choose without incurring liability to Tenant or any other person. As of the Relocation Effective Date, Tenant shall have paid any and all rental and other amounts owed to Landlord with respect to the Premises. If Tenant fails to surrender the Premises to Landlord in accordance with the Lease as amended by this Amendment, then Tenant shall pay, as additional Rent, Basic Rent and Additional Rent attributable to the Premises on a "holdover" basis, as calculated in accordance with Section 1.4 of the Lease using the then-current rate applicable to Call Center Periods, from the 31st day after the Relocation Effective until the date of surrender (provided that payment of such holdover Rent shall not relieve Tenant of its obligation to surrender the Existing Premises in accordance with this paragraph).

G. Landlord shall pay all actual and reasonable, out-of-pocket expenses incurred by Tenant in moving to the Relocation Premises from the Premises (inclusive of Tenant's costs to relocate its furniture and equipment, and to install data and telephone cabling required for Tenant's business operations), subject to Landlord's receipt of reasonable evidence reflecting the expenses so incurred by Tenant. Amounts payable pursuant to this Section shall be made by Landlord within 60 days after Tenant submits a written request therefor together with the required supporting documentation.

H. In addition to any other amounts payable by Landlord hereunder, Landlord shall provide Tenant with an allowance of up to $140,000 (the "**Furniture Allowance**") to be utilized to reimburse Tenant for Tenant's reasonable, actual out-of-pocket expenses paid to unrelated third parties for purposes of purchasing and installing office furniture and equipment to be utilized in the Premises (which furniture and equipment shall be new and shall remain in the Premises or in Tenant's leased premises under the Existing Lease throughout the Term, excluding the last six months thereof); provided that (i) Tenant shall not be entitled to receive any such reimbursement until Tenant provides Landlord with reasonably acceptable evidence listing the items purchased and amounts paid for same, and verifying that such expenses have been paid, (ii) if any such furniture or equipment is removed from the Premises at any time during the Term, then Tenant shall, promptly upon written demand by Landlord, pay to Landlord the amount of the Furniture Allowance attributable to the purchase price of any such furniture or equipment so removed, and (iii) any portion of such allowance for which Tenant has not requested reimbursement (which request must be accompanied by the required verification evidence) by November 30, 2016 shall be forfeited by Tenant (time being of the essence), and Landlord shall have no obligation to fund same. Reimbursements payable pursuant to this Section shall be made by Landlord within 60 days after Tenant submits a written request therefor together with the required supporting documentation.

I. Upon Landlord's request, Tenant shall execute an amendment to the Lease, in reasonable form as prepared by Landlord, evidencing the relocation of the Premises and the terms thereof.

J. Section 1.102 of the Lease is hereby deleted in its entirety.

K. Notwithstanding anything to the contrary set forth herein, in the event that Landlord relocates Tenant's entire leased premises under the Existing Lease (as such term is defined in the Lease) pursuant to Section 15.20 of the Existing Lease at any time subsequent to the time that Landlord exercises its Special Relocation Right (defined herein), Landlord shall be obligated to simultaneously relocate the Premises to the balance of any partial floor on which Tenant's leased premises under the Existing Lease is so relocated ("**Subsequent Relocation**"). The provisions of Sections 5(C), (D), (E), (F), (G), and (I) shall apply to each Subsequent Relocation.

6. Section 1.103. Section 1.103 of the Lease is hereby deleted in its entirety and replaced with the following: "From time to time during the Term, Tenant may give Landlord written notice (an "**Election Notice**") of Tenant's election to utilize all or a portion of the Premises for Call Center Use, which notice must specify (i) the area within the Premises that Tenant wishes to utilize for Call Center Use (of which the Agreed Rentable Area thereof shall be no less than 5,000 square feet) (such space, the "**Call Center Space**"), and (ii) the period of time for which Tenant elects to so use such space (which period shall commence no earlier than 5 business days after the date of such Election Notice and shall continue thereafter for at least 30 days) (such period, the "**Call Center Period**"). Notwithstanding anything to the contrary set forth in this Lease, during any Call Center Period, Tenant shall have the right to use the applicable Call Center Space for Call Center Use (but use of the Premises shall otherwise be limited to Storage Use). If Tenant occupies or uses any portion of the Premises for Call Center Use at times other than during a Call Center Period, then (i) a Call Center Period shall be deemed to have commenced 30 days prior to date on which Landlord becomes aware of such occupancy or use, (ii) such Call Center Period shall be deemed to terminate on the later of the 45th day after the deemed commencement date thereof or the date on which Tenant ceases such occupancy or use (subject to Landlord's verification of same), and (iii) the entire Premises shall be deemed to be Call Center Space for the duration of such Call Center Period, retroactive to the commencement of such period. Additionally, if, during a Call Center Period, Tenant occupies or uses portions of the Premises for Call Center Use other than the applicable Call Center Space, then the entire Premises shall be deemed to be part of such Call Center Space for the duration of the applicable Call Center Period, retroactive to the commencement of such period. Landlord shall have the right to inspect the Premises from time to time as Landlord deems necessary in order to determine and/or document whether Tenant is occupying or using any portion of same for Call Center Use"; provided, however, that Landlord shall not unreasonably interfere with Tenant's business in conducting any such inspections. Notwithstanding anything to the contrary set forth herein, at any time during the Term, Tenant shall be permitted to enter the Premises in order to access and move its furniture and equipment from the Premises to the Tenant's leased premises under the Existing Lease (as such term is defined in the Lease) and back again and any period of time that Tenant accesses the Premises for such purpose shall not constitute a Call Center Period.

7. Rent. Basic Rent from and after September 1, 2016, shall be as follows:

A. During Call Center Periods, Tenant shall pay Basic Rent computed on the applicable Call Center Space pursuant to the following schedule:

Period within Call Center Space	Annual Rate Per Square Foot of Agreed Rentable Area
September 1, 2016 – August 31, 2017	$14.50
September 1, 2017 – August 31, 2018	$15.50
September 1, 2018 – August 31, 2019	$15.50
September 1, 2019 – August 31, 2020	$16.50
September 1, 2020 – August 31, 2021	$16.50
September 1, 2021 – September 30, 2022	$17.50

B. At all times other than Call Center Periods, Tenant shall pay Basic Rent pursuant to the following schedule (and no Additional Rent shall be payable during any such time):

Exhibit 10.2

Period	Monthly Basic
Rent Installment	
September 1, 2016 – December 31, 2016	$2,162.50
January 1, 2017 – December 31, 2017	$2,335.50
January 1, 2018 – December 31, 2018	$2,522.34
January 1, 2019 – December 31, 2019	$2,742.13
January 1, 2020 – December 31, 2020	$2,942.06
January 1, 2021 – December 31, 2021	$3,177.42
January 1, 2022 – September 30, 2022	$3,431.62

C. All Rent shall be payable in accordance with the Lease, as amended hereby.

8. Section 1.104. Section 1.104 of the Lease is hereby deleted in its entirety and replaced with the following: "If Tenant does not utilize any portion of the Premises for Call Center Use for any 24 consecutive month period, then Landlord shall be entitled to terminate this Lease upon written notice to Tenant."

9.Security Access Allowance. Landlord shall provide Tenant with an allowance of up to $10,000 to be utilized to reimburse Tenant for Tenant's reasonable, actual out-of-pocket expenses paid to unrelated third parties for purposes of installing security cameras and access equipment on the 6th or 7th floor of the Building to facilitate the use of the common area rest rooms on such floor as permitted pursuant to Section 5.A above; provided that (i) Tenant shall not be entitled to receive any such reimbursement until Tenant provides Landlord with reasonably acceptable evidence verifying that such expenses have been paid, and (ii) any portion of such allowance for which Tenant has not requested reimbursement (which request must be accompanied by the required verification evidence) by November 30, 2016 shall be forfeited by Tenant (time being of the essence), and Landlord shall have no obligation to fund same. Reimbursements payable pursuant to this Section shall be made by Landlord within 60 days after Tenant submits a written request therefor together with the required supporting documentation.

10.OFAC Certification. Tenant hereby represents and warrants to Landlord that neither Tenant nor any of its respective officers, directors, shareholders, partners, members or affiliates is or will be an entity or person: (i) that is listed in the annex to, or is otherwise subject to the provisions of, EO 13224; (ii) whose name appears on OFAC's most current OFAC List (which list may be published from time to time in various mediums including, but not limited to, the OFAC website, http:www.treas.gov/ofac/t11sdn.pdf); (iii) who commits, threatens to commit or supports "terrorism," as that term is defined in EO 13224; or (iv) who is otherwise affiliated with any entity or person listed above.

11.Addresses for Notice. Landlord's address for notices under the Lease shall be as follows:

1201 Elm Street
Suite 101
Dallas, TX 75270
Attention: Property Manager

and

c/o The Moinian Group
3 Columbus Circle, Suite 2300
New York, NY 10019
Attn: Harry Dreizen, Esq.

with a copy to:

Jackson Walker L.L.P.
2323 Ross Avenue, Suite 600
Dallas, Texas 75201
Attn: Wayne F. Malecha

12. Binding Effect. This Amendment shall become effective only upon full execution and delivery of this Amendment by Landlord and Tenant. This Amendment contains the parties' entire agreement regarding the subject matter covered by this Amendment, and supersedes all prior correspondence, negotiations, and agreements, if any, whether oral or written, between the parties concerning such subject matter. Tenant has not relied on any warranties, representations or promises made by Landlord or Landlord's agents (express or implied) with respect to the Premises, the Building or the Property (including, without limitation, the condition, use or suitability of the Premises, the Building or the Property) that are not expressly set forth in the Lease as amended hereby. This Amendment may be executed in multiple counterparts, and each counterpart when fully executed and delivered shall constitute an original instrument, and all such multiple counterparts shall constitute but one and the same instrument. As modified by this Amendment, the terms and provisions of the Lease shall remain in full force and effect, and the Lease, as modified by this Amendment, shall be binding upon and shall inure to the benefit of the parties hereto, their successors and permitted assigns. Tenant hereby confirms that Landlord has fully performed all of its obligations under the Lease and agrees that as of the date hereof, there is no defense, setoff or counterclaim against Landlord or otherwise affecting Tenant's obligations under the Lease. Other than as may be expressly provided in this Amendment, there are no outstanding allowances or credits that remain owing to Tenant under the Lease.

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Exhibit 10.2

EXECUTED as of the day and year first above written.

LANDLORD:

BINYAN REALTY LP, a Delaware limited partnership

By: Binyan Realty GP, LLC, a Delaware limited liability company, its general partner

By:
Name:
Title:

TENANT:

PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation

By:
Name:
Title:

Exhibit 10.2

GUARANTOR CONSENT

The undersigned consents to the terms and conditions of this Amendment and the execution hereof, and acknowledges and agrees that (i) that certain Lease Guaranty dated as of December 5, 2011 and guaranteeing the obligations of Tenant under the Lease (the "**Guaranty**"), continues in full force and effect with regard to the Lease as modified by this Amendment, and (ii) the execution of this Amendment shall in no way diminish the liability of the undersigned under the Guaranty nor impair or affect the enforceability thereof against the undersigned.

GUARANTOR:

PFSweb, Inc.,
a Delaware corporation

By: ___________________________
Name:___________________________
Title: ___________________________

Exhibit 10.3

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this "**Amendment**") is entered into as of September ____, 2016 (the "**Second Amendment Effective Date**"), by and between **BINYAN REALTY LP** ("**Landlord**"), and **PRIORITY FULFILLMENT SERVICES, INC.**, a Delaware corporation ("**Tenant**").

RECITALS:

A. Tenant and Landlord executed that certain Office Lease Agreement dated as of December 5, 2011 (the "**Original Lease**"), for space in the office building commonly known as Renaissance Tower, located at 1201 Elm Street, Dallas, Texas (the "**Building**"), such space containing 78,060 square feet of Agreed Rentable Area as same is more particularly described in the Original Lease (the "**Existing Premises**").

B. The Original Lease was amended by that certain First Amendment to Lease dated as of January 31, 2014 (the "**First Amendment**"). The Original Lease as amended by the First Amendment is referred to herein as the "**Lease**."

C. Tenant and Landlord desire to further amend the Lease as set forth below. Unless otherwise expressly provided herein, capitalized terms used herein shall have the same meanings as designated in the Lease.

AGREEMENT:

In consideration of the mutual covenants and agreements contained herein and in the Lease, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby amend and modify the Lease as follows:

1. Special Relocation Right. Landlord shall have the one-time right to relocate the Existing Premises to the Relocation Premises effective as of the Relocation Effective Date pursuant to the terms set forth in this Section (such right referred to herein as the "**Special Relocation Right**").

A. The term "**Relocation Premises**" as used herein shall mean two (2) contiguous full floors in the Building and additional space on a floor contiguous thereto, such additional space containing a minimum of 15,000 square feet of Agreed Rentable Area and a maximum of 16,156 square feet of Agreed Rentable Area, which shall be as determined by Landlord; provided, however, that Tenant shall be able to access the entire Relocation Premises from the same elevator bank. The term "**Relocation Effective Date**" as used herein shall mean the date selected by Landlord as the date on which the relocation of the Existing Premises to the Relocation Premises shall be effective (but in no event prior to the date on which Landlord has delivered the Relocation Premises to Tenant in accordance with this Agreement); provided, however, that the Relocation Effective Date must occur during one of the following periods: (i) after January 31, 2017, but no later than September 1, 2017; or (ii) after January 31, 2018, but no later than September 1, 2018.

B. Any election by Landlord to exercise the Special Relocation Right must be made by written notice to Tenant given at least 180 days prior to the Relocation Effective Date. Such notice shall specify the location of the Relocation Premises and the Agreed Rentable Area thereof.

C. Landlord shall, at Landlord's sole cost and expense, construct leasehold improvements, including but not limited to necessary mechanical, electrical, plumbing, ventilation, cabling and wiring, Dedicated Riser, and data center infrastructure, in the Relocation Premises to substantially the same configuration and level of finish as currently contained in the Existing Premises (and shall additionally make such improvements as reasonably required so that the restrooms on the floors on which the Relocation Premises are located are substantially consistent with the restrooms on the 3rd and 4th floors, as presently configured). Landlord shall substantially complete all such improvements at least fifteen (15) days prior to the Relocation Effective Date. In the event Landlord fails to substantially complete all such improvements (which for purposes hereof shall be deemed to have occurred only after Landlord has obtained a certificate of occupancy for the Relocation Premises to the extent required by applicable law, and if so required, Landlord agrees to utilize an "expeditor" to assist in obtaining same) by such date, the Relocation Effective Date shall be extended to the 15th day after such improvements are substantially completed as Tenant's sole remedy for such failure (provided that if such extended date falls between September 2 and January 31 of any applicable year, then the Relocation Effective Date shall be extended to the following February 1).

D. Upon receipt of the building permit from the City of Dallas for the construction of improvements in the Relocation Premises, but not later than 90 days prior to the Relocation Effective Date, Tenant shall be granted access to begin improvements specific to the data center portion of the Relocation Premises. Tenant shall be granted access to the Relocation Premises at least thirty (30) days prior to the Relocation Effective Date to conduct a staged move from the Existing Premises. Any access to the Relocation Premises pursuant to this paragraph shall (i) be in accordance with Building Rules and Regulations, (ii) not interfere with any remaining construction work, and (iii) be subject to all terms and conditions of the Lease applicable to the Premises (including insurance requirements), excluding, however, any obligation to pay Basic Rent or Additional Rent with respect to the Relocation Premises prior to the Relocation Effective Date.

E. Effective as of the Relocation Effective Date, (i) the term "Premises" as used in the Lease shall mean the Relocation Premises, (ii) the "Agreed Rentable Area of the Premises" shall mean the Agreed Rentable Area of the Relocation Premises, and (iii) Basic Rent shall be payable at the rates specified in the Basic Rent schedule set forth in Item 3 of the Basic Lease Provisions, on per square foot basis based on the Agreed Rentable Area of the Premises.

F. Within thirty (30) days after the Relocation Effective Date, Tenant shall peaceably surrender the Existing Premises to Landlord in a condition as required for redelivery of space under the Lease. Any property not removed as required shall be conclusively presumed to have been abandoned by Tenant and Landlord may, at its option, take over possession of such property and either (x) declare the same to be the property of Landlord by written notice to Tenant, or (y) at the sole cost and expense of Tenant (not to exceed the actual, reasonable out-of-pocket cost to Landlord), remove and store and/or dispose of the same or any part thereof in any manner that Landlord shall choose without incurring liability to Tenant or any other person. As of the Relocation Effective Date, Tenant shall have paid any and all rental and other amounts owed to Landlord with respect to the Existing Premises. If Tenant fails to surrender the Existing Premises to Landlord in accordance with the Lease as amended by this Amendment, then Tenant shall pay, as additional Rent, Basic Rent and Additional Rent attributable to the Existing Premises on a "holdover" basis, as calculated in accordance with Section 1.4 of the Lease, from the 31st day after the Relocation Effective Date until the date of surrender (provided that payment of such holdover Rent shall not relieve Tenant of its obligation to surrender the Existing Premises in accordance with this paragraph).

G. Landlord shall pay all actual and reasonable, out-of-pocket expenses incurred by Tenant in moving to the Relocation Premises from the Existing Premises (inclusive of Tenant's costs to relocate its furniture and equipment, including its data center (including reasonable redundant security expenses incurred in connection with moving same, but not to exceed 110% of the cost for the same level of service if provided by a vendor selected by Landlord) and other "above standard" equipment, and to install data and telephone cabling required for Tenant's business operations), subject to Landlord's receipt of reasonable evidence reflecting the expenses so incurred by Tenant. Amounts payable pursuant to this Section shall be made by Landlord within 60 days after Tenant submits a written request therefor together with the required supporting documentation.

H. Upon any election by Landlord to exercise the Special Relocation Right, Rider 3 to the Original Lease shall be modified as follows: (i) the term “Refusal Space” shall mean a contiguous full floor in the Building, as designated by Landlord (provided that Tenant’s rights with respect to such Refusal Space shall be subject and subordinate to the then-existing rights of other Building tenants as to such space, as well as Landlord’s right to renew any tenant then occupying such space), and (ii) the first sentence of Section 3 of such Rider shall be modified by replacing the phrase “the last day of the 66th Lease Month” with “October 1, 2021”.

I. Upon Landlord’s request, Tenant shall execute an amendment to the Lease, in reasonable form as prepared by Landlord, evidencing the relocation of the Existing Premises and the terms thereof.

J. Notwithstanding anything to the contrary set forth herein, in the event that Landlord relocates Tenant’s entire Premises pursuant to Section 15.20 of the Lease, Landlord shall be obligated to simultaneously relocate the premises that Tenant leases from the Landlord pursuant to that certain Office Lease Agreement [Seasonal Space], by and between Tenant and Landlord, dated as of December 5, 2011, as amended by that certain First Amendment to Lease and Lease Reinstatement, dated on or about the date hereof, to the balance of any partial floor on which the Premises are so relocated.

2. Fully Sprinklered Building. Landlord has obtained a variance from the City of Dallas enabling Tenant to utilize a population density within the Premises that will not be limited by any lack of sprinklers within the Building (the “**City Variance**”). The City Variance allows Tenant to utilize a population density within the Premises up to the maximum density allowed by applicable Law (and the restriction for Tenant’s population density not to exceed one person per 75 useable square feet as set forth in Section 4.101 of the Lease shall be inapplicable). In the event the City Variance is hereafter rescinded, Landlord shall use commercially reasonable efforts to procure a reissued variance from the City of Dallas (or obtain an equivalency letter or other similar approval) that will permit Tenant to utilize a population density within the Premises that will not be limited by any lack of sprinklers within the Building, and if Landlord fails to obtain same within 90 days after the City Variance is rescinded, then Landlord will immediately commence installation of fire protection equipment so the building will be considered fully sprinklered and will diligently pursue such installation until completion. If any rescission of the City Variance precludes Tenant from utilizing the population density within the Premises maintained immediately prior to such rescission, then Landlord shall provide Tenant with temporary space in the Building sufficient to accommodate any persons displaced by the reduction in permitted density (provided that the use of such temporary space shall be subject to all terms and conditions of the Lease applicable to the Premises, excluding, however, any obligation to pay Basic Rent or Additional Rent with respect to such temporary space), and Landlord shall further pay all actual and reasonable, out-of-pocket expenses incurred by Tenant in moving to such temporary space (inclusive of Tenant’s costs to relocate its furniture and equipment), subject to Landlord’s receipt of reasonable evidence reflecting the expenses so incurred by Tenant.

3. Inapplicable Riders. Riders 2, 4 and 5 to the Original Lease are hereby deleted in their entirety.

4. OFAC Certification. Tenant hereby represents and warrants to Landlord that neither Tenant nor any of its respective officers, directors, shareholders, partners, members or affiliates is or will be an entity or person: (i) that is listed in the annex to, or is otherwise subject to the provisions of, EO 13224; (ii) whose name appears on OFAC’s most current OFAC List (which list may be published from time to time in various mediums including, but not limited to, the OFAC website, http:www.treas.gov/ofac/t11sdn.pdf); (iii) who commits, threatens to commit or supports “terrorism,” as that term is defined in EO 13224; or (iv) who is otherwise affiliated with any entity or person listed above.

5. Addresses for Notice. Landlord’s address for notices under the Lease shall be as follows:

1201 Elm Street
Suite 101

Dallas, TX 75270
Attention: Property Manager

and

c/o The Moinian Group
3 Columbus Circle, Suite 2300
New York, NY 10019
Attn: Harry Dreizen, Esq.

with a copy to:

Jackson Walker L.L.P.
2323 Ross Avenue, Suite 600
Dallas, Texas 75201
Attn: Wayne F. Malecha

6. Binding Effect. This Amendment shall become effective only upon full execution and delivery of this Amendment by Landlord and Tenant. This Amendment contains the parties' entire agreement regarding the subject matter covered by this Amendment, and supersedes all prior correspondence, negotiations, and agreements, if any, whether oral or written, between the parties concerning such subject matter. Tenant has not relied on any warranties, representations or promises made by Landlord or Landlord's agents (express or implied) with respect to the Premises, the Building or the Property (including, without limitation, the condition, use or suitability of the Premises, the Building or the Property) that are not expressly set forth in the Lease as amended hereby. This Amendment may be executed in multiple counterparts, and each counterpart when fully executed and delivered shall constitute an original instrument, and all such multiple counterparts shall constitute but one and the same instrument. As modified by this Amendment, the terms and provisions of the Lease shall remain in full force and effect, and the Lease, as modified by this Amendment, shall be binding upon and shall inure to the benefit of the parties hereto, their successors and permitted assigns. Tenant hereby confirms that Landlord has fully performed all of its obligations under the Lease and agrees that as of the date hereof, there is no defense, setoff or counterclaim against Landlord or otherwise affecting Tenant's obligations under the Lease. Other than as may be expressly provided in this Amendment, there are no outstanding allowances or credits that remain owing to Tenant under the Lease.

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EXECUTED as of the day and year first above written.

LANDLORD:

BINYAN REALTY LP, a Delaware limited partnership

By: Binyan Realty GP, LLC, a Delaware limited liability company, its general partner

By:
Name:
Title:

TENANT:

PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation

By:
Name:
Title:

GUARANTOR CONSENT

The undersigned consents to the terms and conditions of this Amendment and the execution hereof, and acknowledges and agrees that (i) that certain Lease Guaranty dated as of December 5, 2011 and guaranteeing the obligations of Tenant under the Lease (the "**Guaranty**"), continues in full force and effect with regard to the Lease as modified by this Amendment, and (ii) the execution of this Amendment shall in no way diminish the liability of the undersigned under the Guaranty nor impair or affect the enforceability thereof against the undersigned.

GUARANTOR:

PFSweb, Inc.,
a Delaware corporation

By: ___________________________
Name:___________________________
Title: ___________________________

Exhibit 10.4

LEASE EXTENSION AND AMENDING AGREEMENT

THIS AGREEMENT made the 31st day of May, 2016.

B E T W E E N:

M&R COMMERCIAL PROPERTIES INC.

(“Landlord”)

OF THE FIRST PART

- and -

PRIORITY FULFILLMENT SERVICES OF CANADA, INC.

(“Tenant”)

OF THE SECOND PART

WHEREAS:

A. By a lease dated July 14th, 2011 (“Lease”) between M & R Holdings a Joint Venture of Balco Developments Limited, Windley Limited, Ellendale Investments Limited and Overbank Limited as landlord (“Original Landlord”) and Tenant, Original Landlord leased to Tenant premises with a Rentable Area of approximately Thirty Three Thousand Six Hundred and Twenty One (33,621) square feet in the building municipally known as 9133 Leslie Street, Richmond Hill, Ontario(“Premises”), as more particularly described in the Lease, for a term (“Term”) of Five (5) Years and four (4) months, commencing on August 1, 2011 and expiring on November 30, 2016, with one option to extend the Term of the Lease for further term of Five (5) Years;

B. Landlord is successor in title to the Original Landlord as the Original Landlord transferred the property to the Landlord by transfers registered as Instrument Numbers YR1789641 and YR1789642 on February 29, 2012;

C. The Tenant did not exercise its five (5) year extension option in the Lease; however, the Landlord and Tenant have agreed to extend the Term of the Lease for a further period of Three (3) Years and Six (6) Months commencing on the 1st day of December, 2016 and expiring on the 31st day of May, 2020, all on the terms and conditions set out below;

NOW, THEREFORE, THIS AGREEMENT WITNESSES that in consideration of the mutual promises hereinafter set forth and other good valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties hereto, the parties hereto agree as follows:

1. Confirmation of Recitals

The parties hereto confirm that the foregoing recitals are true in substance and in fact.

2. Extension of Lease

The Term of the Lease is hereby extended for a further period of Three (3) Years and Six (6) Months commencing on the 1st day of December, 2016 and expiring on the 31st day of May, 2020 (“Extension Term”) on the same terms and conditions as contained in the Lease, save and except the annual Basic Rent payable in Section 1(e) of the Lease shall be:

December 1, 2016 to November 30, 2017	$226,941.75 per annum, $18,911.81 per month, $6.75 per sq. ft. per annum;

December 1, 2017 to November 30, 2018	\$235,347.00 per annum, \$19,612.25 per month, \$7.00 per sq. ft. per annum.
December 1, 2018 to May 31, 2020	\$243,752.25 per annum, \$20,312.69 per month, \$7.25 per sq. ft. per annum.

Tenant acknowledges that except as set out below there shall be no further right to extend or renew the Term of the Lease beyond the Extension Term.

All Rent (including Basic Rent and all other amounts payable pursuant to the Lease) shall be payable commencing on the 1st day of December, 2016 and shall continue thereafter at all times throughout the Extension Term without any period during which any such Rent shall not be payable.

3. <u>Amendments to Lease</u>

Section 3 (Option to Extend) of Schedule "C" (Special Provisions) shall be deleted and replaced as follows:

"OPTION TO EXTEND

(a) Provided Tenant is in occupancy of the Premises and is not in default under the Lease, then, Tenant shall have the option to extend this Lease for one (1) further term of three (3) years from June 1, 2020 to May 31, 2023 (the "Second Extension Term"). Such extension shall be on the same terms and conditions as contained in this Lease, except that: (i) there shall be no further right to extend after the expiry of the Second Extension Term; (ii) the Basic Rent shall be in such amount as set out pursuant to subsection (b) of this section; and (iii) there shall be no further right of extension, or Landlord's Work or tenant's allowance or inducement or rent-free period for the Second Extension Term and the Premises shall be accepted by Tenant in "as is" condition at the commencement of such Second Extension Term without Landlord being required to perform any work, provided; however, that Landlord shall not be relieved of its obligations under Section 10.7 or Section 12 of the Lease. Such right to extend shall be exercisable by notice to Landlord by not later than six (6) months prior to the May 31, 2020 expiry of the Extension Term hereof, failing which such right shall be null and void and forever extinguished.

(b) The Basic Rent for the Second Extension Term shall be at the then prevailing fair market rental rates for similar premises in the surrounding area, having regard to all relevant circumstances including the size, age and location of the Premises, the facilities afforded (excluding the Tenant's trade fixtures and equipment), the terms of the Lease, the condition of the Premises and the extent and quality of the improvements therein constructed by Landlord, if any, without any regard to any improvements made by or on behalf of Tenant and disregarding any deficiencies in the condition and state of repair of the Premises as a result of Tenant's failure to comply with its obligations hereunder or under the Lease in respect to the maintenance and repair of the Premises and the use of the Premises. Such rent shall be agreed upon between the parties not later than three (3) months prior to the May 31, 2020 expiry of the Extension Term hereof, failing which such right shall be null and void and forever extinguished."

4. <u>Security Deposit</u>

The Landlord acknowledges and confirms that the Landlord currently holds **Thirty Two Thousand Two Hundred and Ninety Two Dollars and Ninety Eight Cents (\$32,292.98)** as a Security Deposit pursuant to Section 1 of the Lease. The Tenant has agreed to increase the Security Deposit set out in Section 1 of the Lease to **Thirty Six Thousand Two Hundred One Dollars and Thirty Seven Cents (\$36,201.37)** and the Tenant shall pay the difference of **Three**

Thousand Nine Hundred Eight Dollars and Thirty Nine Cents ($3,908.39) to the Landlord upon execution of this Lease Extension and Amending Agreement by the Tenant, to be held by Landlord in accordance with the provisions of the Lease.

5. Condition of Premises

Tenant shall accept the Premises in "as is" condition and Landlord shall have no obligation to perform any Leasehold Improvements or other work to the Premises and Landlord shall not be required to pay any allowance or give any inducement in respect thereof, provided; however, that Landlord shall not be relieved of its obligations under Section 10.7 or Section 12 of the Lease.

6. Performance of Covenants

Landlord and Tenant hereby mutually covenant and agree that during the Extension Term they shall perform and observe all of the covenants, provisos and obligations on their respective parts to be performed pursuant to the terms of the Lease, as amended and extended hereby.

7. Jurisdiction

This Agreement shall be governed by and interpreted in accordance with, and the parties hereto shall attorn to, the laws of the Province of Ontario. The parties agree that the Courts of Ontario shall have jurisdiction to determine any matters arising hereunder.

8. Miscellaneous Provisions

(a) The Lease as amended by the terms of this Agreement, is hereby ratified and confirmed and remains in full force and effect in accordance with its terms.

(b) This Agreement and the Lease shall be binding upon and enure to the benefit of the parties hereto and their respective successors and assigns, subject to the express restrictions contained in the Lease.

(c) Landlord and Tenant shall, at all times hereafter, upon the reasonable request of the other, make or procure to be made, done or executed all such further assurances and to do all such things as may be necessary to give full force and effect to the full intent of this Agreement.

(d) Capitalized expressions used herein, unless separately defined herein, have the same meaning as defined in the Lease.

EXECUTED by each of the parties hereto under seal on the date first above mentioned.

M&R COMMERCIAL PROPERTIES INC.

Per: ___
Name
Title:

Per: ___ c/s
Name
Title:

I/We have authority to bind the Corporation.

PRIORITY FULFILLMENT SERVICES OF CANADA, INC.

Per: ___
Name
Title:

Per: ___ c/s
Name
Title:

I/We have authority to bind the Corporation.

Exhibit 31.1

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

I, Michael Willoughby, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2016

By: /s/ Michael Willoughby
Chief Executive Officer

Exhibit 31.2

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

I, Tom Madden, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 9, 2016

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

Exhibit 32.1

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

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

The Quarterly Report on Form 10-Q for the period ended September 30, 2016 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

November 9, 2016	/s/ Michael Willoughby Michael Willoughby Chief Executive Officer
November 9, 2016	/s/ Thomas J. Madden Thomas J. Madden Chief Financial Officer

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

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