

PFSWEB INC
Form 10-Q
August 09, 2018

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 June 30, 2018

OR

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

For the Transition Period from to

Commission File Number 000-28275

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware	75-2837058
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

Not Applicable

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(Former name, former address and former fiscal year, if changed since last report)

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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging growth company

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

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

As of August 6, 2018, there were 19,258,092 shares of registrant’s common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q

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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)	
	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,622	\$ 19,078
Restricted cash	214	214
Accounts receivable, net of allowance for doubtful accounts of \$393 and \$373		
at June 30, 2018 and December 31, 2017, respectively	53,387	72,062
Inventories, net of reserves of \$296 and \$342 at June 30, 2018 and		
December 31, 2017, respectively	5,677	5,326
Other receivables	4,460	5,366
Prepaid expenses and other current assets	6,470	6,633
Total current assets	83,830	108,679
PROPERTY AND EQUIPMENT:		
Cost	116,690	120,403
Less: accumulated depreciation	(94,932)	(96,225)
	21,758	24,178
IDENTIFIABLE INTANGIBLES, net	2,535	3,371
GOODWILL	45,424	45,698
OTHER ASSETS	3,636	3,861
Total assets	\$ 157,183	\$ 185,787
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	\$ 30,910	\$ 45,070
Accrued expenses	22,532	29,074
Current portion of long-term debt and capital lease obligations	5,537	9,460
Deferred revenues	5,397	7,405
Performance-based contingent payments	—	3,967
Total current liabilities	64,376	94,976
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	40,329	37,866
DEFERRED REVENUES, less current portion	2,869	4,034
DEFERRED RENT	5,129	5,464

OTHER LIABILITIES	2,245	2,150
Total liabilities	114,948	144,490
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.001 par value; 35,000,000 shares authorized; 19,291,559 and 19,058,685 shares		
issued at June 30, 2018 and December 31, 2017, respectively; and 19,258,092 and 19,025,218		
outstanding at June 30, 2018 and December 31, 2017, respectively	19	19
Additional paid-in capital	153,429	150,614
Accumulated deficit	(110,376)	(109,281)
Accumulated other comprehensive income	(712)	70
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	42,235	41,297
Total liabilities and shareholders' equity	\$ 157,183	\$ 185,787

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(In Thousands, Except Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES:				
Service fee revenue	\$ 53,141	\$ 54,700	\$ 109,628	\$ 111,965
Product revenue, net	8,847	9,947	18,612	21,265
Pass-through revenue	15,063	13,419	27,232	23,604
Total revenues	77,051	78,066	155,472	156,834
COSTS OF REVENUES:				
Cost of service fee revenue	33,294	35,977	68,902	75,561
Cost of product revenue	8,403	9,505	17,719	20,230
Cost of pass-through revenue	15,063	13,419	27,232	23,604
Total costs of revenues	56,760	58,901	113,853	119,395
Gross profit	20,291	19,165	41,619	37,439
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	19,756	20,735	40,415	42,453
Income (loss) from operations	535	(1,570)	1,204	(5,014)
INTEREST EXPENSE, net	585	710	1,190	1,347
Income (loss) before income taxes	(50)	(2,280)	14	(6,361)
INCOME TAX EXPENSE, net	576	316	1,389	1,091
NET LOSS	\$(626)	\$(2,596)	\$(1,375)	\$(7,452)
NET LOSS PER SHARE:				
Basic	\$(0.03)	\$(0.14)	\$(0.07)	\$(0.40)
Diluted	\$(0.03)	\$(0.14)	\$(0.07)	\$(0.40)
WEIGHTED AVERAGE NUMBER OF SHARES				
OUTSTANDING:				
Basic	19,174	18,870	19,160	18,804
Diluted	19,174	18,870	19,160	18,804
COMPREHENSIVE LOSS:				
Net loss	\$(626)	\$(2,596)	\$(1,375)	\$(7,452)
Foreign currency translation adjustment	(1,239)	511	(782)	807
TOTAL COMPREHENSIVE LOSS	\$(1,865)	\$(2,085)	\$(2,157)	\$(6,645)

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)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,375)	\$(7,452)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,957	7,565
Amortization of debt issuance costs	71	76
Provision for doubtful accounts	22	89
Provision for excess and obsolete inventory	108	31
Loss on disposal of fixed assets	42	—
Deferred income taxes	8	240
Stock-based compensation expense	2,006	1,761
Changes in operating assets and liabilities:		
Accounts receivable	18,326	19,725
Inventories	(459)	(1,125)
Prepaid expenses, other receivables and other assets	1,193	3,396
Deferred rent	(300)	78
Accounts payable, deferred revenues, accrued expenses and other liabilities	(22,887)	(20,962)
Net cash provided by operating activities	2,712	3,422
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,941)	(1,975)
Proceeds from sale of property and equipment	59	—
Net cash used in investing activities	(1,882)	(1,975)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	350	402
Taxes paid on behalf of employees for withheld shares	(363)	(256)
Payments on performance-based contingent payments	(3,268)	(2,004)
Payments on capital lease obligations	(1,359)	(1,678)
Payments on term loan	(1,500)	(1,125)
Payments on revolving loan	(59,183)	(49,880)
Borrowings on revolving loan	59,949	45,619
Payments on other debt	(494)	(490)
Borrowings on other debt	309	895
Net cash used in financing activities	(5,559)	(8,517)
EFFECT OF EXCHANGE RATES ON CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
	(727)	1,777
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,456)	(5,293)

Cash and cash equivalents, beginning of period	19,078	24,425
Restricted cash, beginning of period	214	215
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning of period	19,292	24,640
Cash and cash equivalents, end of period	13,622	19,132
Restricted cash, end of period	214	215
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, end of period	\$13,836	\$19,347

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for income taxes	\$973	\$844
Cash paid for interest	\$1,080	\$1,152
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and capital leases	\$1,033	\$1,072
Performance-based contingent payments through stock issuance	\$822	\$354

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

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of PFSweb, Inc. and its subsidiaries (the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), and include all normal and recurring adjustments necessary to present fairly the unaudited condensed consolidated balance sheets, statements of operations and comprehensive loss, and statements of cash flows for the periods indicated. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations of the SEC. This report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Results of the Company’s operations for interim periods may not be indicative of results for the full fiscal year. The Company reclassifies certain prior year amounts, as applicable, to conform to the current year presentation.

2. Significant Accounting Policies

For a complete set of the Company’s significant accounting policies, refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. During the three and six-month periods ending June 30, 2018, there were no significant changes to our significant accounting policies, other than those policies impacted by the new revenue recognition guidance as described below in the Impact of Recently Issued Accounting Standards.

Revenue and Cost Recognition

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

Revenue is recognized when (or as) we satisfy performance obligations by transferring a promised good or service, an asset, to a client or customer. An asset is transferred to a client or customer when, or as, the client or customer obtains control over that asset. The transaction price includes fixed and, in certain contracts, variable consideration.

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

Incremental contract costs (such as sales commissions) are expensed when incurred when the amortization period of the asset that would have been recognized is one year or less; otherwise, incremental contract costs are recognized as an asset and amortized over time as promised goods and services are transferred to a customer.

We evaluate our contractual arrangements to determine whether or not they include multiple performance obligations. Revenue recognition is determined for each distinct performance obligation of the contract in accordance with Accounting Standard Codification (“ASC”) 606 (“ASC 606”). We allocate revenue to each performance obligation based on the relative standalone sales price.

For contracts recognized over time, we recognize the estimated loss to the extent the project has been completed based on actual hours incurred compared to the total estimated hours. We recognized a \$0.2 million contract loss for both the three and six months ended June 30, 2018. The loss is recognized when the current estimate of the consideration we expect to receive, modified to include any variable consideration, is less than the current estimate of total costs for the contract.

Service Fee Revenue

Our service fee revenue includes activities that relate to our PFS Operations and LiveArea Professional Services business units. PFS Operations primarily includes distribution, order management and payment services. LiveArea Professional Services primarily includes e-commerce and digital experience strategy consulting, creative website design and marketing support, and technology platform integration services. We typically charge our service fee revenue on either a time and materials, fixed price, cost-plus a margin, a percent of shipped revenue, or retainer basis for our professional services, or a per transaction basis, such as a per item basis for fulfillment services or a per labor hour basis for web-enabled customer contact center services. Additional fees are billed for other services.

Distribution services relate primarily to inventory management, product receiving, warehousing and fulfillment (i.e., picking, packing and shipping product on our clients' behalf). Order management and contact center services relate primarily to taking customer orders for our clients' products via various channels such as telephone call-center, electronic or facsimile. These services

also entail addressing customer questions related to orders, as well as merchandising activities. These performance obligations typically include related set-up and integration services in preparation of performing such activities.

Professional services relate primarily to design, implementation and support of eCommerce platforms, website solutions and quality control for our clients. Additionally, the Company provides digital agency services that enable client marketing programs to attract new customers, convert buyers and increase website value. We recognize this revenue over time as services are rendered.

Most of our fixed price, professional services contracts require the customer to pay us for all costs plus a margin for work performed up until termination date, regardless of which party terminates. For these contracts, revenue is recognized based on input methods, generally hours expended. The input method measures progress toward the satisfaction of the performance obligation by multiplying the transaction price of the performance obligation by the percentage of hours incurred to total estimated hours as of the balance sheet date after giving effect to the most current estimates. When we are not able to reasonably measure the outcome of a performance obligation but expect to recover costs incurred, we recognize revenue to the extent of the costs incurred until such time that we can reasonably measure the outcome of the performance obligation.

Our 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, as incurred. The related reimbursable costs are reflected as cost of pass-through revenue.

Product Revenue

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

Gross versus Net Revenue

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

The allocated transaction price when we are the principle will be based on the stand alone selling price of the good or service, which is supported by the invoice. Transaction prices for products are typically based off list prices, plus a margin. The transaction prices for services are primarily based off of labor rate tables, job level categories, material and infrastructure costs, plus a margin.

Indicators that we control the specified good or service before it is transferred to the customer (and are therefore a principal) include: 1) we are primarily responsible for fulfilling the promise to provide the specified good or service, 2) we have inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer (for example, if the customer has a right of return), and 3) we have discretion in establishing the price for the specified good or service. We must first identify the specified good or service and determine whether we control that specified good or service before evaluating the indicators. The indicators serve as support for the

entity's control determination and are not a replacement of it.

Practical expedients

The standard allows entities to use several practical expedients, including determining whether a significant financing component exists, treatment of sales and usage-based taxes, and the recognition of certain incremental costs of obtaining a contract with a client or customer. Contracts of less than a year with a financing component will be expensed in that period as a practical expedient. Our current contracts do not have a financing component. Commissions on contracts of less than one year will be expensed as a practical expedient. Commissions will be capitalized on contracts over one year. As of June 30, 2018, we did not have any material commissions on contracts in excess of one year. We also present our revenues net of sales and usage-based tax as a practical expedient.

Impact of Recently Issued Accounting Standards

Pronouncements Recently Adopted

In May 2014, the FASB issued ASC 606, "Revenue from Contracts with Customers", which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, provides companies with a single revenue recognition model for recognizing revenue from contracts with clients and customers and significantly expands the disclosure requirements for revenue arrangements. The new standard, as amended, became effective for the Company for interim and annual reporting periods beginning on January 1, 2018.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method applied to the contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605, "Revenue Recognition".

We recorded a net increase to opening retained earnings of \$0.3 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606, with the impact primarily related to our adjustments to deferred revenues and costs. We recorded a reduction of \$0.7 million to deferred revenue, a reduction of \$0.4 million to deferred costs, and a contract liability of \$0.1 million.

The impact of applying ASC 606 for the three and six months ended June 30, 2018 was immaterial to revenues and operating profits.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a consensus of the Emerging Issues Task Force" ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. Adoption of ASU 2016-15 as of January 1, 2018 did not have an impact on the Company's consolidated financial statements.

In November 2016, the FASB issued an ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). ASU 2016-18 amends the presentation of restricted cash within the consolidated statements of cash flows, requiring that restricted cash be added to cash and cash equivalents on the consolidated statements of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2016-18 in the three-month period ended March 31, 2018 on a retrospective basis with no impact to the Company's consolidated financial statements.

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

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

In March 2018, the FASB issued ASU 2018-05, "Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05"). The amendments in ASU 2018-05 provide guidance on when to record and disclose provisional amounts for certain income tax effects of the Tax Cuts and Jobs Act ("Tax Reform Act"). The amendments also require any provisional amounts or subsequent adjustments to be included in net income. Additionally, ASU

2018-05 discusses required disclosures that an entity must make with regard to the Tax Reform Act. ASU 2018-05 is effective immediately as new information is available to adjust provisional amounts that were previously recorded. The Company has adopted ASU 2018-05 and will continue to evaluate indicators that may give rise to a change in our tax provision as a result of the Tax Reform Act.

Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the impact of ASU 2016-02 on its consolidated financial statements, including implementing changes to our systems and processes in conjunction with our review of existing lease agreements. The Company currently expects the most significant impact of this new standard will be the recognition of the right-of-use assets and operating lease liabilities on our consolidated balance sheet upon adoption as well as the related financial statement disclosures.

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

3. Acquisition

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

Consideration paid by the Company included an initial cash payment of \$30.7 million and 553,223 unregistered shares of Company common stock. In addition, the purchase agreement provided 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. For the six months ended June 30, 2017 the Company paid an aggregate of \$2.4 million in settlement of the 2016 CrossView Earn-out Payments, of which \$0.4 million was paid by the issuance of 48,173 restricted shares of Company stock. For the six months ended June 30, 2018 the Company paid an aggregate of \$4.1 million in settlement of the 2017 CrossView Earn-out Payments, of which \$0.8 million was paid by the issuance of 76,998 restricted shares of Company stock. As of December 31, 2017, the Company had recorded a liability \$4.0 million applicable to the estimated CrossView Earn-out Payments, which is included in performance-based contingent payments in the consolidated balance sheet. As of June 30, 2018, the Company has no further liability for the Cross View Earn-out.

4. Revenue from Contracts with Clients and Customers

Performance Obligations

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

Our performance obligations for PFS Operations, includes distribution, contact center, order management and payment services, and for LiveArea Professional Services, include commerce strategy consulting, creative design and marketing support, and technology platform integration services. For contracts with multiple performance obligations, we allocate transaction price to each performance obligation using the stand alone selling price for the distinct good or service in the contract. The primary method used to calculate the standalone selling price is the list price, which includes margin, approach, under which we forecast our costs of satisfying a performance obligation and then add an appropriate margin for that distinct good or service. If a fixed fee is used, it is based on the underlying projected costs with a margin.

Implementation services related to setup costs for PFS Operations are not distinct within the context of the contract because of the inter-dependence of the integrating services with other services promised in the contract. It represents a bundle of services that reflect the combined output for which the client has contracted. These implementation revenues and costs are amortized from the first full month after go live through the end of the contract period. Transaction based fees are generally charged monthly based on volume and contract price.

Substantially all of our LiveArea professional services are satisfied over time, as the clients or customers simultaneously receive and consume the benefits provided by our service as they are performed. PFS Operations primarily consists of service fee revenue, which is made up of transaction items, such as shipments, which are recognized at a point in time, and services such as storage, which are recognized over time. In addition, PFS Operations has certain product revenue where it acts as a reseller, and when we determine we are the agent, recognizes net revenue at a point in time, typically at FOB shipping point. The transaction price for each performance obligation is based on the consideration specified in the contract with the client or customer and is reflected on the invoice. Additionally, for most of our Service Fee related revenue contracts, we have an enforceable right to payment for performance completed up to the termination date.

Remaining performance obligations represent the transaction price of firm orders for which work has yet not been performed. As of June 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$42.8 million. The Company expects to recognize revenue on approximately 23% of the remaining performance obligations in 2018, 59% through 2019, and the remaining recognized thereafter.

Revenue recognition timing and contract modifications

A number of factors relating to our business affect the recognition of contract revenue. We typically price our professional services contracts on either a time and materials, fixed-price or a cost-plus margin basis.

For fixed-price arrangements, we typically recognize revenue based on the input method, as we believe that hours expended over time proportionately, based on actual hours to budgeted hours during the period, provides the most relevant measure of progress for these contracts. For time and materials contracts, we recognize revenue monthly based on the actual hours worked at the labor rates by job category, and cost of materials plus margin. We recognize revenue for a performance obligation satisfied over time only if we can reasonably measure our progress toward complete satisfaction of the performance obligation. In some circumstances (for example, in the early stages of a contract), we may not be able to reasonably measure the outcome of a performance obligation, but we expect to recover the costs incurred in satisfying the performance obligation. In those circumstances, we shall recognize revenue only to the extent of the costs incurred until such time that we can reasonably measure the outcome of the performance obligation.

Contract modifications are routine in the performance of our contracts. Change orders that result from modification of an original contract are taken into consideration for revenue recognition when they result in a change of total contract value and are approved by our clients. In most instances, contract modifications are for services that are not distinct, and therefore, are accounted for as part of the existing contract. If the contract has significant scope changes, then it will be viewed as a separate contract and accounted for separately. Implementation/Integration service fees are considered part of an existing performance obligation, provided that they are dependent and interrelated to that existing performance obligation. On the PFS Operations side, those implementation revenues and costs are deferred and recognized over time, based on the term of the contract. If it was a significant scope change, then it would be accounted for as a separate performance obligation, deferred and amortized over the contract term.

Contract Assets and Contract Liabilities

Contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. The contract assets are reclassified as receivables when the rights become unconditional. The contract liabilities primarily relate to the advance consideration received from clients for client contracts, including amounts received for implementation services which are not distinct performance obligations.

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

Contract balances consisted of the following (in thousands):

	June 30, 2018	January 1, 2018
Trade Accounts Receivable		
Trade Accounts Receivable, net	\$52,823	\$70,923
Unbilled Accounts Receivable	371	172
Total Trade Accounts Receivable, net	\$53,194	\$71,095
Contract Liabilities		
Accrued Contract Liabilities	\$625	\$583
Deferred Revenue	8,266	10,697
Total Contract Liabilities	\$8,891	\$11,280

Changes in contract liabilities during the period was a decrease of \$2.4 million in our contract liabilities from January 1, 2018 to June 30, 2018, primarily due to an increase of approximately \$2.2 million from new projects, offset by approximately \$4.6 million of amortization and recognition of revenue in the six months ended June 30, 2018.

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

Changes in the contract asset and liability balances during the six months ended June 30, 2018 were not materially impacted by any other factors.

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

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	LiveArea		Total	LiveArea		Total
	PFS Operations	Professional Services		PFS Operations	Professional Services	
Revenues:						
Service fee revenue	\$33,194	\$ 19,948	\$53,141	\$68,116	\$ 41,513	\$109,628
Product revenue, net	8,847	—	8,847	18,612	—	18,612
Pass-through						
revenue	14,574	488	15,063	26,374	857	27,232
Total revenues	\$56,615	\$ 20,436	\$77,051	\$113,102	\$ 42,370	\$155,472

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

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	LiveArea		Total	LiveArea		Total
	PFS Operations	Professional Services		PFS Operations	Professional Services	
Revenues by region:						
North America	\$46,073	\$ 18,036	\$64,109	\$90,690	\$ 37,202	\$127,892
Europe	10,542	2,400	12,942	22,412	5,168	27,580
Total revenues	\$56,615	\$ 20,436	\$77,051	\$113,102	\$ 42,370	\$155,472

5. Inventory Financing

Supplies Distributors has a short-term credit facility with IBM Credit LLC (“IBM Credit Facility”) to finance its purchase and distribution of products of Ricoh Company Limited and Ricoh USA, Inc., a strategic business unit within the Ricoh Family Group of Companies (collectively hereafter referred to as “Ricoh”), in the United States, providing financing for eligible Ricoh inventory and certain receivables.

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

Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, the Company has classified the outstanding amounts under this facility, which were \$7.4 million and

\$7.1 million as of June 30, 2018 and December 31, 2017, respectively, as trade accounts payable in the condensed consolidated balance sheets. As of June 30, 2018, Supplies Distributors had no available credit under this facility. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5%, which resulted in a weighted average interest rate of 5.25% and 4.75% as of as of June 30, 2018 and December 31, 2017, respectively.

6. Debt and Capital Lease Obligations

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

	June 30, 2018	December 31, 2017
U.S. Credit Agreement		
Revolver	\$ 14,000	\$ 13,234
Term loan	25,500	27,000
Equipment loan	3,740	4,205
Debt issuance costs	(305)	(376)
Master lease agreements	2,830	3,135
Other	101	128
Total	45,866	47,326
Less current portion of long-term debt	5,537	9,460
Long-term debt, less current portion	\$ 40,329	\$ 37,866

U.S. Credit Agreement

As of June 30, 2018, the Company had \$18.5 million of available credit under the revolving loan facility of the credit agreement of PFSweb, Inc. and its U.S. subsidiaries with Regions Bank, as agent for itself and one or more future lenders (“Credit Agreement”). As of June 30, 2018 and December 31, 2017, the weighted average interest rate on the revolving loan facility was 5.59% and 4.65%, respectively. As of June 30, 2018 and December 31, 2017, the weighted average interest rate on the term loan facility of the Credit Agreement was 4.38% and 4.05%, respectively.

7. Earnings Per Share

Basic net loss per common share was computed by dividing net loss by the weighted-average number of common shares outstanding for the reporting period. In periods when we recognize a net loss, we exclude the impact of outstanding common stock equivalents from the diluted loss per share calculation as their inclusion would have an antidilutive effect. As of June 30, 2018 and June 30, 2017, we had outstanding common stock equivalents of approximately 2.1 million and 1.6 million, respectively, that have been excluded from the calculations of diluted earnings per share attributable to common stockholders because their effect would have been antidilutive.

8. Segment Information

Prior to January 1, 2018, the Company’s operations were organized into two reportable segments: PFSweb and Business and Retail Connect. In accordance with ASC 280, Segment Reporting (“ASC 280”), an operating segment is defined as a component of an enterprise for which discrete financial information is available and is reviewed regularly by the Chief Operating Decision Maker (“CODM”), or decision-making group, to evaluate performance and make operating decisions.

Effective January 1, 2018, we changed our organizational structure in an effort to create more effective and efficient operations and to improve client and service focus. In that regard, we revised the information that our chief executive officer and chief financial officer, who are also our Chief Operating Decision Makers, regularly review for purposes of allocating resources and assessing performance. As a result, beginning January 1, 2018, we now report our financial performance based on our new reportable segments. These segments are comprised of strategic businesses that are defined by the service offerings they provide and consist of PFS Operations (which provides client services in relation

to the customer physical experience, such as order management (OMS), order fulfillment, customer care and financial services) and Professional Services LiveArea (which provides client services in relation to the digital shopping experience of shopping online, such as strategic commerce consulting, strategy, design and digital marketing services and technology services). Each segment is led by a separate Business Unit Executive who reports directly to the Company's Chief Executive Officer.

The CODM evaluates segment performance using business unit direct contribution, which is defined as business unit revenues less costs of fees and direct selling, general and administrative expenses, including depreciation and amortization. Direct contribution does not include any allocated corporate expenses nor does it include stock-based compensation. The CODM does not routinely review assets by segment. The balance sheet by segment is not prepared and, therefore, we do not present segment assets below.

Corporate operations is a non-operating segment that develops and implements strategic initiatives and supports the Company's operations by centralizing certain administrative functions such as finance, treasury, information technology and human resources.

All prior period segment information has been restated to conform to the 2018 presentation. The changes in the reportable segments have no effect on the consolidated balance sheets, statements of operations or cash flows for the periods presented.

Subsequent to change in the Company's operating segments, the Company's reporting units changed. We now have two reporting units: PFS Operations and LiveArea Professional Services. We allocated goodwill to our new reporting units using a relative fair value approach. In addition, we completed an assessment of any potential goodwill impairment for all reporting units immediately prior to and after the reallocation and determined that no impairment existed.

The following table discloses segment information for the periods presented (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues:				
PFS Operations	\$ 56,615	\$ 55,660	\$ 113,102	\$ 113,896
LiveArea Professional Services	20,436	22,406	42,370	42,938
Total revenues	\$ 77,051	\$ 78,066	\$ 155,472	\$ 156,834
Business unit direct contribution:				
PFS Operations	\$ 6,488	\$ 5,026	\$ 12,820	\$ 9,934
LiveArea Professional Services	2,910	2,523	5,879	4,577
Total business unit direct contribution	\$ 9,398	\$ 7,549	\$ 18,699	\$ 14,511
Unallocated corporate expenses	(8,863)	(9,119)	(17,493)	(19,525)
Income (loss) from operations	\$ 535	\$ (1,570)	\$ 1,204	\$ (5,014)

9. 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 June 30, 2018, the Company believes it has adequately accrued for the expected assessment.

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

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

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like “seek,” “strive,” “believe,” “expect,” “anticipate,” “predict,” “potential,” “continue,” “will,” “may,” “could,” “intend,” “plan,” “target,” “project” and “estimate” or similar expressions, we are making forward-looking statements. We have based these statements on our current expectations about future events. Although we believe the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee these expectations will actually be achieved. In addition, some forward-looking statements are based upon assumptions about 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.

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, 2017 filed with the Securities and Exchange Commission could cause our results to differ materially from those expressed in our forward-looking statements.

Key Transactions and Events

During the three and six months ended June 30, 2018, we were impacted by the following key transactions and events:

Effective January 1, 2018, we changed our organizational structure in an effort to create more effective and efficient operations and to improve client and service focus. As a result, beginning January 1, 2018, we report our financial performance based on our new reportable segments PFS Operations and LiveArea Professional Services. All prior period segment information has been restated to conform with the 2018 presentation. The changes in the reportable segments have no effect on the consolidated balance sheets, statements of operations and comprehensive loss or cash flows for the periods presented.

We adopted Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers (“ASC 606”) on January 1, 2018. We used the modified retrospective method for the transition. Under the modified retrospective method, the cumulative effect of applying the new standard was recorded at January 1, 2018 for open contracts. Therefore, results for the three and six months ended June 30, 2018 and June 30, 2017 may not be comparable.

Overview

We are a global commerce solutions company. We manage the entire customer shopping experience for major branded manufacturers and retailers through two business segments, LiveArea Professional Services and PFS Operations. The LiveArea Professional Services segment provides services in relation to the digital shopping experience of shopping online, such as strategic commerce consulting, strategy, design and digital marketing services and technology services. The PFS Operations segment provides services in relation to the physical experience, such as order management, order fulfillment, customer care and payment services. We offer our services on an a la carte basis or as a complete end-to-end solution.

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

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

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

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

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

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

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

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

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

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

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

Selling, General and Administrative expenses – consist of expenses such as compensation and related expenses for sales and marketing staff, distribution costs (excluding freight) applicable to the Agent and the Retail model, executive, management and

administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses and acquisition related costs.

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

Operating Results

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

	Three Months Ended			% of Total		Six Months Ended			% of Total	
	June 30, 2018	2017	Change	Revenues 2018	2017	June 30, 2018	2017	Change	Revenues 2018	2017
Revenues										
Service fee revenue	\$ 53,141	\$ 54,700	\$(1,559)	69.0%	70.1%	\$ 109,628	\$ 111,965	\$(2,337)	70.5%	71.4%
Product revenue, net	8,847	9,947	(1,100)	11.5%	12.7%	18,612	21,265	(2,653)	12.0%	13.6%
Pass-through revenue	15,063	13,419	1,644	19.5%	17.2%	27,232	23,604	3,628	17.5%	15.1%
Total revenues	77,051	78,066	(1,015)	100.0%	100.0%	155,472	156,834	(1,362)	100.0%	100.1%
Costs of Revenues										
Cost of service fee										
revenue (1)	33,294	35,977	(2,683)	62.7%	65.8%	68,902	75,561	(6,659)	62.9%	67.5%
Cost of product revenue										
(2)	8,403	9,505	(1,102)	95.0%	95.6%	17,719	20,230	(2,511)	95.2%	95.1%
Pass-through cost of										
revenue (3)	15,063	13,419	1,644	100.0%	100.0%	27,232	23,604	3,628	100.0%	100.0%
Total costs of revenues	56,760	58,901	(2,141)	73.7%	75.5%	113,853	119,395	(5,542)	73.2%	76.1%
Service fee gross										
profit (1)	19,847	18,723	1,124	37.3%	34.2%	40,726	36,404	4,322	37.1%	32.5%
Product revenue gross										
profit (2)	444	442	2	5.0%	4.4%	893	1,035	(142)	4.8%	4.9%
Pass-through gross										
profit (3)	—	—	—	0.0%	0.0%	—	—	—	0.0%	0.0%
Total gross profit	20,291	19,165	1,126	26.3%	24.5%	41,619	37,439	4,180	26.8%	23.9%
Selling General and										
Administrative										
expenses	19,756	20,735	(979)	25.6%	26.6%	40,415	42,453	(2,038)	26.0%	27.1%
Income (loss) from										
operations	535	(1,570)	2,105	0.7%	-2.0%	1,204	(5,014)	6,218	0.8%	-3.2%
Interest expense, net	585	710	(125)	0.8%	0.9%	1,190	1,347	(157)	0.8%	0.9%

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Income (loss) before

income taxes	(50)	(2,280)	2,230	-0.1%-2.9%	14	(6,361)	6,375	0.0%	-4.1%
Income tax expense, net	576	316	260	0.7% 0.4%	1,389	1,091	298	0.9%	0.7%
Net loss	\$(626)	\$(2,596)	\$1,970	-0.8%-3.3%	\$(1,375)	\$(7,452)	\$6,077	-0.9%	-4.8%

(1) Represents the percent of Service fee revenue.

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

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

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Segment Operating Data

PFS Operations (in thousands, except percentages)

	Three Months Ended				Six Months Ended			
	June 30,		Change	Change %	June 30,		Change	Change %
	2018	2017			2018	2017		
Revenues:								
Service fee revenue	\$33,194	\$32,634	\$560	2 %	\$68,116	\$69,641	\$(1,525)	(2)%
Product revenue, net	8,847	9,947	\$(1,100)	(11)%	18,612	21,265	\$(2,653)	(12)%
Pass-through revenue	14,574	13,079	1,495	11 %	26,374	22,990	3,384	15 %
Total revenues	\$56,615	\$55,660	\$955	2 %	\$113,102	\$113,896	\$(794)	(1)%
Costs of revenues:								
Cost of service fee revenue	\$							