

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2002

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-28275

PFSWEB, INC.
(Exact name of registrant as specified in its charter)

DELAWARE

75-2837058

(State of Incorporation)

(I.R.S. Employer I.D. No.)

500 NORTH CENTRAL EXPRESSWAY, PLANO, TEXAS

75074

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

At May 3, 2002 there were 18,183,272 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

PFSWEB, INC. AND SUBSIDIARIES
FORM 10-Q
MARCH 31, 2002

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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)

ASSETS	March 31, 2002 ----- (unaudited)	December 31, 2001 -----
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,322	\$ 10,786
Accounts receivable, net of allowance for doubtful accounts of \$248 and \$254 at March 31, 2002 and December 31, 2001, respectively	7,882	6,915
Other receivables	--	92
Prepaid expenses and other current assets	2,068	2,646
	-----	-----
Total current assets	19,272	20,439
	-----	-----
PROPERTY AND EQUIPMENT, net	14,079	15,329
NOTE RECEIVABLE FROM AFFILIATE	11,800	11,655
OTHER ASSETS (including \$2,876 and \$2,722 of restricted cash at March 31, 2002 and December 31, 2001, respectively)	4,547	4,305
	-----	-----
Total assets	\$ 49,698	\$ 51,728
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	\$ 1,128	\$ 995

Trade accounts payable	4,345	2,995
Accrued expenses	5,526	5,300
	-----	-----
Total current liabilities	10,999	9,250
	-----	-----
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	3,629	3,663
	-----	-----
DEFERRED INCOME	2,061	2,210
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding	--	--
Common stock, \$0.001 par value; 40,000,000 shares authorized; 18,235,796 and 18,143,409 shares issued at March 31, 2002 and December 31, 2001, respectively; and 18,149,496 and 18,057,109 outstanding at March 31, 2002 and December 31, 2001, respectively	18	18
Additional paid-in capital	52,020	51,942
Accumulated deficit	(17,384)	(14,157)
Accumulated other comprehensive loss	(1,560)	(1,113)
Treasury stock at cost, 86,300 shares at March 31, 2002 and December 31, 2001	(85)	(85)
	-----	-----
Total shareholders' equity	33,009	36,605
	-----	-----
Total liabilities and shareholders' equity	\$ 49,698	\$ 51,728
	=====	=====

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

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PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	2002	2001
	-----	-----
REVENUES:		
Gross service fee revenue	\$ 7,826	\$ 12,638
Gross service fee revenue, affiliate (Note 8) ..	1,565	--
	-----	-----
Total gross service fee revenue	9,391	12,638
Less pass through charges	1,073	1,397
	-----	-----
Net service fee revenue	8,318	11,241
Other net revenue	--	397
	-----	-----
Total net revenues	8,318	11,638
	-----	-----
COSTS OF REVENUES:		
Cost of net service fee revenue	5,229	7,591
Cost of other revenue	--	59
	-----	-----
Total costs of net revenues	5,229	7,650
	-----	-----
Gross profit	3,089	3,988
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
	7,093	6,402
	-----	-----
Loss from operations	(4,004)	(2,414)

EQUITY IN EARNINGS OF AFFILIATE	512	--
INTEREST INCOME	265	211
	-----	-----
Loss before income taxes	(3,227)	(2,203)
INCOME TAX BENEFIT	--	11
	-----	-----
NET LOSS	\$ (3,227)	\$ (2,192)
	=====	=====
NET LOSS PER SHARE:		
Basic and diluted	\$ (0.18)	\$ (0.12)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and diluted	18,149	17,907
	=====	=====

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

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PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Three Months Ended March 31,	
	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,227)	\$ (2,192)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,648	1,635
Deferred income taxes	--	109
Provision for doubtful accounts	21	211
Equity in earnings of affiliate	(512)	--
Non-cash compensation expense	24	--
Changes in operating assets and liabilities:		
Accounts receivables	(1,008)	1,575
Prepaid expenses and other current assets	713	1,546
Accounts payable, accrued expenses and deferred income	1,555	2,493
	-----	-----
Net cash provided by (used in) operating activities	(786)	5,377
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(338)	(1,249)
Increase in restricted cash	(154)	--
Loan to affiliate	(145)	--
	-----	-----
Net cash used in investing activities	(637)	(1,249)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on long-term debt and capital lease obligations	(259)	(35)
Proceeds from issuance of common stock	54	25
Proceeds from debt	172	--
	-----	-----
Net cash used in financing activities	(33)	(10)
	-----	-----
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(8)	5
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,464)	4,123

CASH AND CASH EQUIVALENTS, beginning of period	10,786	18,143
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 9,322	\$ 22,266
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION Non-cash investing and financing activities:		
Fixed assets acquired under capital leases	\$ 186	\$ --
	=====	=====
Increase in equity investment in affiliate	\$ 149	\$ --
	=====	=====

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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION

PFSweb, Inc. (the "Company" or "PFSweb") is an international provider of integrated business process outsourcing services to major brand name companies seeking to maximize their supply chain efficiencies and to extend their traditional and e-commerce initiatives in the United States, Canada, and Europe. The Company offers such services as professional consulting, technology collaboration, managed hosting and creative web development, order management, web-enabled customer contact centers, customer relationship management, financial services including billing and collection services, information management, option kitting and assembly services, and international fulfillment and distribution services.

The unaudited interim condensed consolidated financial statements as of March 31, 2002, and for the three months ended March 31, 2002 and 2001, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of March 31, 2002, its results of operations for the three months ended March 31, 2002 and 2001 and its results of cash flows for the three months ended March 31, 2002 and 2001. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data has been reclassified to conform to the current period presentation. Included in selling, general and administrative expenses in the three months ended March 31, 2002, are approximately \$0.8 million of technology infrastructure costs that were incurred in both periods but that were recorded a component of cost of net service fee revenue in the three months ended March 31, 2001. These technology costs were principally dedicated to the activities that generated service fee revenue under the transaction management services contract with Daisytex International Corporation ("Daisytex"), the Company's former parent corporation, which was terminated in November 2001 (see Note 6). These reclassifications had no effect on previously reported net income or shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

Subsequent to the Offering and for all periods presented herein, the financial position, results of operations and cash flows of the Company are

referred to as the consolidated financial statements of PFSweb, Inc. and subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

INVESTMENT IN AFFILIATE

In 2001 the Company paid \$750,000 in cash for a 49% ownership interest in Business Supplies Distributors Holdings, LLC, ("Holdings") (see Note 8). The Company records its interest in Holdings' net income, which is allocated and distributed to the owners pursuant to the terms of Holdings' operating agreement, under the modified equity method, which results in the Company recording its allocated earnings of Holdings or 100% of Holdings' losses.

In addition to the equity investment, the Company has loaned a subsidiary of this affiliate \$11.8 million in the form of a Subordinated Demand Note (the "Note"). The Note can be decreased to \$6.5 million subject to Holdings' compliance with the covenants of its senior loan facilities, as amended. Management believes that the Note, which is due on demand, will not be repaid in its entirety within the upcoming year and has therefore classified the entire balance as long-term.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REVENUE AND COST RECOGNITION

The Company's service fee revenues primarily relate to its (1) distribution services, (2) order management/customer care services and (3) the reimbursement of out-of-pocket and third-party vendor expenses.

Distribution services relate primarily to inventory management, product receiving, warehousing and fulfillment (i.e., picking, packing and shipping). Revenue for these activities are either (i) earned on a per transaction basis or (ii) earned 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 our client's products via various channels such as telephone call-center, electronic or facsimile. These services also entail addressing customer questions related to orders, as well as cross-selling/up-selling activities. Revenue 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, or (ii) are included in the product fulfillment service fees which are recognized on product shipment. 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 which consist of creative website development and maintenance, web hosting, technology interfacing, 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.

The Company also performs billing services and information management services for its clients. Billing services and information management services are typically not billed separately to clients because the activities are continually performed, and the costs are insignificant and are generally covered by other fees described above. Therefore, any revenue attributable to these services is often included in the distribution or order management fees which are recognized as services are performed. The service fee revenue associated with these activities is currently not significant and is incidental to the above-mentioned services.

The Company's billings for reimbursement of out-of-pocket expenses, such as travel, and certain third-party vendor expenses such as shipping and handling costs and telecommunication charges are included in gross service fee

revenue. The related reimbursable costs are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

The Company recognizes revenue, and records trade accounts receivables, pursuant to the methods described above when collectibility is reasonably assured. Collectibility is evaluated on an individual customer basis taking into consideration historical payment trends, current financial position, results of independent credit evaluations and payment terms.

Other revenue of \$0.4 million for the three months ended March 31, 2001 represents the fees charged to a client in conjunction with the early termination of its contract. Cost of other revenue for the three months ended March 31, 2001 includes approximately \$0.1 million of certain uncollectible amounts receivable from, and liabilities applicable to, clients who terminated contracts.

The Company primarily performs its services under two to three year contracts that can be terminated by either party. In conjunction with these long-term contracts the Company generally receives start-up fees to cover its implementation costs, including certain technology infrastructure and development costs. The Company defers the fees received, and the related costs, and amortizes them over the life of the contract. 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 exceed the fees received, excess costs are expensed as incurred. The following summarizes the deferred implementation costs and revenues (in thousands):

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	MARCH 31, 2002 -----	DECEMBER 31, 2001 -----
Deferred implementation costs		
Current	\$ 761	\$ 845
Non-current	607	655
	-----	-----
	\$ 1,368	\$ 1,500
	=====	=====
Deferred implementation revenues		
Current	1,254	1,434
Non-current	913	988
	-----	-----
	\$ 2,167	\$ 2,422
	=====	=====

Current and non-current deferred implementation costs are a component of prepaid expenses and other assets, respectively. Current and non-current deferred implementation revenues are a component of accrued expenses and deferred income, respectively.

CONCENTRATION OF BUSINESS AND CREDIT RISK

The Company had four clients which accounted for approximately 67% of the Company's revenue for the three months ended March 31, 2002, of which 19% was from Holdings or its wholly-owned subsidiaries. Service fee revenue from Daisytek accounted for approximately 63% of the Company's total revenues for the three months ended March 31, 2001, of which 20% was from the Daisytek subsidiaries that were the predecessors to Supplies Distributors. As of March 31, 2002, three customers accounted for approximately 40% of accounts receivable, of which 14% is due from Holdings or its wholly-owned subsidiaries. As of December 31, 2001, two customers accounted for approximately 36% of accounts receivable, of which 12% was due from Holdings or its wholly-owned

subsidiaries.

RESTRICTED CASH

In conjunction with certain long-term debt and leases, as of March 31, 2002 and December 31, 2001, the Company had approximately \$2.9 million and \$2.7 million of cash restricted, respectively, as collateral for letters of credit that secure these debt and lease obligations. The letters of credit expire at various dates through July, 2004.

3. RECENTLY ISSUED ACCOUNTING PRINCIPLES

On January 1, 2002, the Company adopted the provisions of EITF D-103 "Income Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred." The Company's billings for out-of-pocket expenses, such as travel, and certain third-party vendor expenses such as shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenues.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently assessing the impact on the consolidated financial statements and will adopt the provisions of this standard in the first quarter of 2003.

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. COMPREHENSIVE LOSS (IN THOUSANDS)

	Three Months Ended March 31,	
	2002	2001
Net loss	\$ (3,227)	\$ (2,192)
Other comprehensive income:		
Foreign currency translation adjustment	(447)	10
Comprehensive loss	\$ (3,674)	\$ (2,182)

Effective April 1, 2001, in response to a change to the Euro for transaction activity previously conducted in the U.S. dollar by the Company's largest European client, the Company adopted the Euro as its functional currency for its European operations. As a result, beginning April 1, 2001, all assets and liabilities are translated at exchange rates in effect at the end of the period, and income and expense items are translated at the average exchange rates for the period. Translation adjustments are reported as a separate component of shareholders' equity. Gains and losses from foreign currency transactions are included in net loss.

5. NET LOSS PER COMMON SHARE AND COMMON SHARE EQUIVALENT

Basic and diluted net loss per common share attributable to PFSweb common stock were determined based on dividing the loss available to common stockholders by the weighted-average number of common shares outstanding. During the three months ended March 31, 2002 and 2001, all outstanding options to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. As of March 31, 2002 and 2001 there were 5,982,391 and 5,756,195 options outstanding. There are no other potentially

dilutive securities outstanding.

6. TRANSACTIONS WITH DAISYTEK

As of March 31, 2002, the Company had no receivables from Daisytek. As of December 31, 2001 the Company had receivables from Daisytek of approximately \$0.1 million.

In conjunction with the successful completion of the Offering, PFSweb entered into agreements with Daisytek, including a tax sharing agreement, a transaction management services agreement, a transition services agreement and a master separation agreement. In addition, on a going forward basis, Daisytek will continue to be an obligor and guarantor for certain of the Company's facility and equipment leases.

On May 25, 2001, the Company completed the sale of certain assets to Daisytek pursuant to an Asset Purchase Agreement (the "Purchase Agreement") (See Note 7). The Purchase Agreement included a termination by the Company and Daisytek of certain transaction management services agreements previously entered into between the Company and Daisytek and a Daisytek subsidiary. Concurrently with the closing of the asset sale, the Company and Daisytek also entered into a six-month transition services agreement under which the Company provided Daisytek with certain transitional and information technology services that expired in November 2001.

For the three months ended March 31, 2001, the unaudited interim condensed consolidated financial statements include service fee revenues and cost of service fee revenues for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements.

Service fee revenues charged to Daisytek under (i) the IBM Master Distributor Agreements (See Note 8), entered into during the quarter ended September 30, 1999, (ii) terms of the transaction management services agreement with Daisytek, and (iii) for certain subcontracted services, were \$7.4 million, for the three months ended March 31, 2001.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Effective November 2001, the Company is not a party to any agreement to provide services for Daisytek.

7. DISPOSITION OF ASSETS

On May 25, 2001, the Company completed the sale of certain assets to Daisytek pursuant to the Purchase Agreement. Under the Purchase Agreement, the Company transferred and sold to Daisytek certain distribution and fulfillment assets, including equipment and fixtures, that were previously used by the Company to provide outsourcing services to Daisytek. Daisytek also assumed certain related equipment leases and a warehouse lease and hired certain employees who were associated with the warehouse facility. The consideration payable under the Purchase Agreement of \$11.0 million included a termination by the Company and Daisytek of certain transaction management services agreements previously entered into between the Company and Daisytek and a Daisytek subsidiary. Proceeds of \$10.9 million were received for assets with an approximately \$4.5 million net book value with a resulting \$5.8 million gain, after closing costs of \$0.6 million. Concurrently with the closing of the asset sale, the Company and Daisytek also entered into a six-month transition services agreement under which the Company provided Daisytek with certain transitional and information technology services.

Pro forma net revenues and pro forma loss from operations for the three months ended March 31, 2001, assuming the transaction had occurred in January 2001, would have been \$6.6 million and (\$4.3) million, respectively. The pro forma data do not give effect to any fees earned by PFSweb for services provided to Daisytek under a six-month transition services agreement entered into on May 25, 2001 or the effect of the \$5.8 million gain on the sale of the assets.

Additionally, these pro forma adjustments do not consider certain infrastructure costs, such as operating costs associated with the information technology function, salaries of certain management and personnel, telephone and lease costs, and depreciation expense which supported this business but that will continue in the future. Because these ongoing costs were not considered, the pro forma adjustments to the loss from operations are not indicative of the overall margin earned under these transaction management services agreements.

8. SUPPLIES DISTRIBUTORS

The Company, Business Supplies Distributors (a Daisytek subsidiary -- "BSD"), Daisytek and IBM were parties to various Master Distributor Agreements which had various scheduled expiration dates through September 2001. Under these agreements, BSD and its affiliates Business Supplies Distributors Europe B.V. ("BSD Europe"), a Daisytek subsidiary, and BSD (Canada) Inc., a Daisytek subsidiary ("BSD Canada" and together with BSD and BSD Europe, the "BSD Companies"), acted as master distributors of various IBM products, Daisytek provided financing and credit support to the BSD Companies and the Company provided transaction management and fulfillment services to the BSD Companies.

On June 8, 2001, Daisytek notified the Company and IBM that it did not intend to renew these agreements upon their scheduled expiration dates. In July 2001, the Company and Inventory Financing Partners, LLC ("IFP") formed Holdings, and Holdings formed a wholly-owned subsidiary, Supplies Distributors ("Supplies Distributors"). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries Supplies Distributors of Canada, Inc. ("SDC") and Supplies Distributors S.A. ("SDSA"), a Belgium corporation. Supplies Distributors, SDSA, the Company and IBM entered into new Master Distributor Agreements to replace the prior agreements. Under these agreements, Supplies Distributors and SDSA act as master distributors of various IBM products and, pursuant to a transaction management services agreement between the Company and Supplies Distributors, the Company provides transaction management and fulfillment services to Supplies Distributors.

The Company made an equity investment of \$0.75 million in Holdings, which is included in other assets in the accompanying consolidated financial statements, for a 49% voting interest, and IFP made an equity investment of \$0.25 million in Holdings for a 51% voting interest. Certain officers and a director of the

Company collectively own a 49% non-voting interest in IFP. In addition to its equity investment in Holdings, the Company has also provided Supplies Distributors with a subordinated loan, evidenced by the Note, which, as of March 31, 2002, had an outstanding balance of \$11.8 million. The Note, which is classified as a note receivable from affiliate, accrues interest at a fluctuating rate per annum equal to the Company's cost of funds, as determined by the Company. For the three months ended March 31, 2002, the Company charged interest at 10% and earned \$0.3 million associated with the Note.

On September 26, 2001, Supplies Distributors purchased all of the stock of the BSD Companies for a purchase price of \$923,000. In conjunction with the purchase, BSD and Supplies Distributors were merged with Supplies Distributors being the surviving corporation. Effective December 31, 2001, BSD Canada and SDC were amalgamated, with SDC being the surviving corporation. On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") for the purpose of financing its distribution of IBM products. The facilities, which at inception included \$40 million for the U.S. operations and 20 million Euros (approximately \$18 million) for the European operations, were subsequently increased to \$45 million and 27 million Euros (approximately \$24 million), respectively, and extended through March 25, 2002.

On March 29, 2002, Supplies Distributors entered into amended credit facilities with IBM Credit and SDSA and BSD Europe entered into amended credit facilities with IBM Belgium. The asset based credit facility with IBM Credit provides financing for purchasing IBM inventory up to \$32.5 million through June

30, 2002 and \$27.5 million from July 1, 2002 through its expiration on March 29, 2003. The asset based credit facility with IBM Belgium provides up to 27 million Euros (approximately \$23.5 million) in financing for purchasing IBM inventory through June 30, 2002 and 22 million Euros (approximately \$19.1 million) thereafter. The IBM Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2003. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, 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 collateralized guaranties of Holdings and PFSweb (See Note 9). Additionally, the Company is required to maintain a subordinated loan to Supplies Distributors of no less than \$6.5 million and shareholders' equity of at least \$25.0 million.

Concurrent with these amended agreements, Supplies Distributors entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to \$25 million of eligible accounts receivables in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. In Europe, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 10 million Euros (approximately \$8.7 million) of eligible accounts receivables. Borrowings under this agreement accrue interest at 8.5%, or on an adjusted basis as defined. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, 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 minimum net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb (See Note 9). Additionally, the Company is required to maintain a subordinated loan to Supplies Distributors of no less than \$6.5 million and may not maintain restricted cash of more than \$5.0 million as security for capital leases, and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure.

Pursuant to the terms of the Company's transaction management services agreement with Supplies Distributors, the Company earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately \$1.6 million for the three months ended March 31, 2002. For the three months ended March 31, 2001, prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were \$2.3 million, net of \$0.2 million of pass-through charges. As of March 31, 2002 and December 31, 2001, the Company has trade accounts receivables of \$1.1 million and \$0.9 million due from Supplies Distributors, respectively.

Pursuant to Holdings' operating agreement, Holdings allocates its earning and distributes its cash flow, as defined, in the following order of priority: first, to IFP until it has received a one-time amount equal to its capital contribution of \$0.25 million; second, to IFP until it has received an amount equal to a 35% cumulative annual return on its capital contribution; third, to PFSweb until it has received a one-time amount equal to its capital contribution of \$0.75 million; fourth, to PFSweb until it has received an amount

equal to a 35% cumulative annual return on its capital contribution; and fifth, to PFSweb and IFP, pro rata, in accordance with their respective capital accounts. Notwithstanding the foregoing, no distribution may be made if, after giving effect thereto, the net worth of Holdings may be less than \$1.0 million. Under the terms of its credit agreements, Holdings is currently limited to annual cash dividends of \$0.6 million. The Company recorded \$0.5 million of equity in the earnings of Holdings for the three months ended March 31, 2002.

Summarized financial information for Holdings as of March 31, 2002 is as follows (in thousands):

Cash and cash equivalents	\$	2,583
Accounts receivable, net of allowance for doubtful accounts of \$673		31,264
Inventories, net		41,971
Prepaid expenses and other current assets		4,388
Other assets, net (including restricted cash of \$608)		851

Total assets	\$	81,057
		=====
Trade accounts payable	\$	11,639
Accrued expenses		2,213
Debt (guaranteed by PFSweb)		53,779
Other debt		169
Note payable to affiliate		11,800
Members' capital:		
Capital contributions		1,000
Retained earnings		820
Unrealized loss on investment		(207)
Accumulated other comprehensive loss		(156)

Total members' capital		1,457

Total liabilities and members' capital	\$	81,057
		=====

Summarized operating information for Holdings for the three months ending March 31, 2002 is as follows (in thousands):

Net revenues	\$	53,103
Cost of goods sold		50,080

Gross profit		3,023
Selling, general and administrative expenses		1,875

Income from operations		1,148
Interest expense		433

Income before income taxes		715
Income tax expense		296

Net income	\$	419
		=====

9. COMMITMENTS AND CONTINGENCIES

The Company has provided collateralized guarantees to secure the repayment of Supplies Distributors' credit facilities. As of March 31, 2002 the outstanding balance of the credit facilities guaranteed by the Company was approximately \$54.0 million. These guarantees expire concurrently with the expiration of the underlying credit agreements. To the extent Supplies Distributors or its subsidiaries fails to comply with its covenants, including its monthly financial covenant requirements, and the lenders accelerate the repayment of the credit facility obligations, Supplies Distributors or its subsidiaries would be required to repay all amounts outstanding thereunder. In such event, the Company would be obligated to perform under those guarantees and repay, to the extent Supplies Distributors or its subsidiaries was unable to, Supplies Distributors' or its subsidiaries credit facility obligations. Additionally, if the Company was unable to maintain the Company's required level of stockholders' equity of \$25.0 million or if the Company was to violate any of the restricted transactions pursuant to the IBM Credit, IBM Belgium, or Congress agreements (see Note 8), the Company could also be obligated to perform under these guarantees. Any requirement to perform under the Company's guarantees would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company will have the financial ability to repay all of such guaranteed obligations. In addition, in the event Supplies Distributors or its subsidiaries is, or would be, in default of its obligations under its credit facilities, the Company is restricted from receiving any payment of its Note and such event would also have a material adverse impact upon the Company's financial condition and results of operations. Furthermore, the Company is obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. The Company has also provided a guarantee of the obligations of Supplies Distributors and its subsidiaries to IBM, excluding the trade payables that are financed by IBM Credit. No liabilities have been recorded in the accompanying financial statements for these guarantee obligations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

FORWARD-LOOKING INFORMATION

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the nine-month transition period ended December 31, 2001, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- o our ability to retain and expand relationships with existing

- clients and attract new clients;
- o our reliance on the fees generated by the transaction volume or product sales of our clients;
- o our reliance on our clients' projections or transaction volume or product sales;
- o our client mix and the seasonality of their business;
- o our ability to finalize pending contracts;
- o the impact of strategic alliances and acquisitions;
- o trends in the market for our services;
- o trends in e-commerce;
- o whether we can continue and manage growth;
- o changes in the trend toward outsourcing;
- o increased competition;
- o our ability to generate more revenue and achieve sustainable profitability;
- o effects of changes in profit margins;
- o the customer concentration of our business;
- o the unknown effects of possible system failures and rapid changes in technology;
- o trends in government regulation both foreign and domestic;
- o foreign currency risks and other risks of operating in foreign countries;
- o potential litigation involving our e-commerce intellectual property rights;
- o our dependency on key personnel;

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- o our ability to raise additional capital;
- o our relationship with and our guarantees of the working capital indebtedness of our affiliate, Supplies Distributors;
- o the continued listing of our common stock on the NASDAQ; and
- o our relationship with and separation from Daisytek, our former parent corporation.

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 you that these expectations actually will be achieved. In addition, some forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expected or forecasted in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future. There may be additional risks that we do not currently view as material or that are not presently known.

OVERVIEW

We are an international outsourcing provider of integrated business process outsourcing solutions to major brand name companies seeking to maximize their supply chain efficiencies and to extend their e-commerce initiatives. We derive our revenues from a broad range of services, including professional consulting, technology collaboration, order management, managed web hosting and web development, customer relationship management, financial services including billing and collection services, options kitting and assembly services, information management and international fulfillment and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete infrastructure needs to a single source and to focus on their core competencies. Our distribution services are conducted at our warehouses and include real-time inventory management and customized picking, packing and shipping of our clients' customer orders. We currently provide infrastructure and distribution solutions to clients that operate in a range of vertical markets, including technology manufacturing, computer products, printers, cosmetics, fragile goods, high security collectibles, pharmaceuticals, housewares, apparel, telecommunications and consumer electronics, among others.

Our service fee revenue is typically charged on a percent of shipped revenue basis or on a per-transaction basis, such as a per-minute 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. Our billings for reimbursements of out-of-pocket expenses, such as travel and certain third-party vendor expenses such as shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

Our expenses are comprised of (i) cost of service fee revenue, which consists primarily of compensation and related expenses for our Web-enabled customer contact center services, international fulfillment and distribution services and professional consulting services, and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses; and (ii) selling, general and administrative expenses, which consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses.

RESULTS OF OPERATIONS

The following table sets forth certain historical financial information from our unaudited interim condensed consolidated statements of operations expressed as a percent of revenue.

	Three Months Ended March 31,	
	2002	2001
Gross service fee revenue	94.1%	108.6%
Gross service fee revenue, affiliate	18.8	--
Total gross service fee revenue	112.9	108.6
Pass-through charges	(12,9)	(12.0)
Net service fee revenue	100.0	96.6
Other net revenue	--	3.4

Total net revenues	100.0	100.0
Cost of net service fee revenue (as % of net service fee revenue)	62.9	67.5
Cost of other net revenue (as % of total net revenue)	--	0.5
	-----	-----
Total costs of net revenues	62.9	65.7
	-----	-----
Gross profit	37.1	34.3
Selling, general and administrative expenses	85.3	55.0
	-----	-----
Loss from operations	(48.2)	(20.7)
Equity in earnings of affiliate	6.2	--
Interest income	3.2	1.8
	-----	-----
Loss before income taxes	(38.8)	(18.9)
Income tax benefit	--	0.1
	-----	-----
Net loss	(38.8)%	(18.8)%
	=====	=====

RESULTS OF OPERATIONS FOR THE INTERIM PERIODS ENDED MARCH 31, 2002 AND 2001

Net Service Fee Revenue (including service fee revenue, affiliate). Service fee revenue was \$8.3 million for the three months ended March 31, 2002 as compared to \$11.2 million for the three months ended March 31, 2001, a decrease of \$2.9 million or 26.0%. The decrease in service fee revenue over the prior period was due to the impact of certain contract terminations, primarily the Daisytek contract, as well as certain other lower margin producing contracts. This reduction was partially offset by the impact of new service contract relationships and growth in existing client relationships. In conjunction with the \$10.9 million sale of a distribution facility to Daisytek in May 2001 (discussed below in "Liquidity and Capital Resources"), we terminated certain of our transaction management services agreements entered into between us and Daisytek and a Daisytek subsidiary. Concurrently with the closing of the facility sale, we entered into a six-month transition services agreement to provide Daisytek with certain transitional and information technology services. The net impact of the changes in our services provided to Daisytek was a reduction in revenue of \$7.4 million for the three months ended March 31, 2002. The reduction in net service fee revenue attributed to the termination of lower margin producing contracts was \$0.7 million for the three months ended March 31, 2002. For the three months ended March 31, 2002, the increase in net service fee revenue attributed to new client contract relationships was \$3.3 million. For the three months ended March 31, 2002, the increase in net service fee revenue from existing contracts was \$1.9 million. We believe our revenue was negatively impacted by the recent slowdown in the U.S. economy and the seasonality of our largest client, which has a low first quarter of business activity followed by a higher second quarter.

Pursuant to the terms of the Company's transaction management services agreement with Supplies Distributors, the Company earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately \$1.6 million for the three months ended March 31, 2002. For the three months ended March 31, 2001, prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were \$2.3 million, net of \$0.2 million of pass-through charges.

Other Revenue. Other revenue of \$0.4 million for the three months ended March 31, 2001 represents the fees charged to a client in conjunction with the early termination of its contract.

Cost of Net Service Fee Revenue. Cost of net service fee revenue was \$5.2 million for the three months ended March 31, 2002, as compared to \$7.6 million during the three months ended March 31, 2001, a decrease of \$2.4 million or 31.1%. The resulting service fee gross profit was \$3.1 million or 37.1% of net service fee revenue, during the three months ended March 31, 2002 as compared to \$3.6 million, or 32.5% of net service fee revenue for the three months ended March 31, 2001. The reduction in gross profit is primarily a result

of the decrease in service fee revenue. However, our gross profit as a percent of net service fee revenue increased in the current period because the gross profit percentage earned on certain contracts terminated during or since the three months ended March 31, 2001 was lower than the contracts we continue to operate.

Cost of Other Net Revenue. Cost of other revenue for the three months ended March 31, 2001 reflect approximately \$0.1 million of certain uncollectible amounts receivable from, and accrued expenses applicable to, clients who terminated contracts.

Selling, General and Administrative Expenses. SG&A expenses were \$7.1 million for the three months ended March 31, 2002, or 85.3% of revenues, as compared to \$6.4 million, or 55.0% of revenues, for the three months ended March 31, 2001. SG&A expenses increased over the prior year due to approximately \$0.8 million of technology infrastructure costs that were incurred in both periods but that were recorded as a component of cost of service fee revenue in the prior year. These technology costs were principally dedicated to the activities that generated service fee revenue under the transaction management services contract with Daisytek, which was terminated in November 2001. Increases in sales and marketing costs in the current period were offset by a net decrease in personnel compensation costs due to head count reductions.

Equity in Earnings of Affiliate. For the three months ended March 31, 2002, we recorded \$0.5 million of equity in earnings of affiliate which represents our allocation of Holdings earnings.

Interest Income. Interest income was \$0.3 million for the three months ended March 31, 2002 as compared to interest income of \$0.2 million for the three months ended March 31, 2001. The increase in interest income is attributable to the impact of higher interest rates charged on our subordinated loan to Supplies Distributors partially offset by lower interest rates earned by our cash and cash equivalents and higher interest expense due to an increase in our long-term debt and capital lease obligations.

Income Taxes. For the three months ended March 31, 2002, we did not record any tax benefits associated with our net loss since we have not established a sufficient history of earnings for our operations. A valuation allowance has been provided for our net deferred tax assets as of March 31, 2002, which are primarily related to our net operating loss carryforwards. For the three months ended March 31, 2001, we recorded an income tax benefit associated with the true-up of previously estimated tax attributes for fiscal 2000, which were due to us since our prior results were included in Daisytek's consolidated tax return, offset by an income tax provision associated with a pre-tax income from our Canadian operations. We did not record an income tax benefit for our European pre-tax losses in the current or prior period.

SUPPLIES DISTRIBUTORS

Business Supplies Distributors (a Daisytek subsidiary -- "BSD"), Daisytek and IBM and us were parties to various Master Distributor Agreements which had various scheduled expiration dates through September 2001. Under these agreements, BSD and its affiliates Business Supplies Distributors Europe B.V. ("BSD Europe"), a Daisytek subsidiary, and BSD (Canada) Inc., a Daisytek subsidiary ("BSD Canada" and together with BSD and BSD Europe, the "BSD Companies"), acted as master distributors of various IBM products, Daisytek provided financing and credit support to the BSD Companies and we provided transaction management and fulfillment services to the BSD Companies. On June 8, 2001, Daisytek notified us and IBM that it did not intend to renew these agreements upon their scheduled expiration dates. In July 2001, we and Inventory Financing Partners, LLC ("IFP") formed Business Supplies Distributors Holdings,

LLC ("Holdings"), and Holdings formed a wholly-owned subsidiary, Supplies Distributors ("Supplies Distributors"). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries Supplies Distributors of Canada, Inc. ("SDC") and Supplies Distributors S.A. ("SDSA"), a Belgium corporation. Supplies Distributors, SDSA, IBM and PFSweb entered into new Master Distributor Agreements to replace the prior agreements. Under the new agreements, Supplies Distributors and SDSA act as master distributors of various IBM products and, pursuant to a transaction management services agreement between us and Supplies

Distributors, we provide transaction management and fulfillment services to Supplies Distributors. We made an equity investment of \$0.75 million in Holdings for a 49% voting interest, and IFP made an equity investment of \$0.25 million in Holdings for a 51% voting interest. Certain officers and a director of PFSweb own a 49% non-voting interest in IFP. In addition to its equity investment in Holdings, we have also provided Supplies Distributors with a subordinated loan, which, as of March 31, 2002, had an outstanding balance of \$11.8 million and accrued interest at approximately 10%. The balance can be decreased to \$6.5 million subject to Supplies Distributors' compliance with the covenants of its senior loan facilities, as amended.

On September 26, 2001, Supplies Distributors purchased all of the stock of the BSD Companies for a purchase price of \$923,000. In conjunction with the purchase, BSD and Supplies Distributors were merged with Supplies Distributors being the surviving corporation. Effective December 31, 2001, BSD Canada and SDC were amalgamated, with SDC being the surviving corporation. On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") for the purpose of financing its distribution of IBM products. The facilities, which at inception included \$40 million for the U.S. operations and 20 million Euros (approximately \$18 million) for the European operations, were subsequently increased to \$45 million and 27 million Euros (approximately \$24 million), respectively, and extended through March 25, 2002. The Company has provided a collateralized guaranty to secure the repayment of these credit facilities.

On March 29, 2002, Supplies Distributors entered into amended credit facilities with IBM Credit and SDSA and BSD Europe entered into amended credit facilities with IBM Belgium. The asset based credit facility with IBM Credit provides financing for purchasing IBM inventory up to \$32.5 million through June 30, 2002 and \$27.5 million from July 1, 2002 through its expiration on March 29, 2003. The asset based credit facility with IBM Belgium provides up to 27 million Euros (approximately \$23.5 million) in financing for purchasing IBM inventory through June 30, 2002 and 22 million Euros (approximately \$19.1 million) thereafter. The IBM Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2003. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, 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 collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than \$6.5 million, and shareholders' equity of at least \$25.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or SDSA under these facilities. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined.

Concurrent with these amended agreements, Supplies Distributors entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to \$25 million of eligible accounts receivables in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. In Europe, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 10 million Euros (approximately \$8.7 million) of eligible accounts receivables. Borrowings under this agreement accrue interest at 8.5%, or on an adjusted basis as defined. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, 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 minimum net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan of no less than \$6.5 million to Supplies Distributors and may not maintain restricted cash of more than \$5.0 million as security for capital leases, and are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors under the Congress facility. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. PFS has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Pursuant to the terms of our transaction management services agreement with Supplies Distributors, we earned service fees, which are reported as gross service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately \$1.6 million for the three months ended March 31, 2002. For the three months ended March 31, 2001, prior to becoming a related party, service fees earned by PFSweb from BSD, associated with the Master Distributor Agreements, were \$2.3 million, net of \$0.2 million of pass-through charges. As of March 31, 2002 and December 31, 2001 we had trade accounts receivables of \$1.1 million and \$0.9 million due from Supplies Distributors, respectively.

We record our interest in Holdings' net income, which is allocated and distributed to the owners pursuant to the terms of Holdings' operating agreement, under the modified equity method, which results in us recording our allocated earnings of Holdings or 100% of Holdings' losses. Pursuant to Holdings' operating agreement, Holdings allocates its earning and distributes its cash flow, as defined, in the following order of priority: first, to IFP until it has received a one-time amount equal to its capital contribution of \$0.25 million; second, to IFP until it has received an amount equal to a 35% cumulative annual return on its capital contribution; third, to PFSweb until it has received a one-time amount equal to its capital contribution of \$0.75 million; fourth, to PFSweb until it has received an amount equal to a 35% cumulative annual return on its capital contribution; and fifth, to PFSweb and IFP, pro rata, in accordance with their respective capital accounts. Notwithstanding the foregoing, no distribution may be made if, after giving effect thereto, the net worth of Holdings shall be less than \$1.0 million. Under terms of the credit agreements described above, Holdings is currently limited to annual cash dividends of \$0.6 million. We recorded \$0.5 million of equity in the earnings of Holdings for the three months ended March 31, 2002.

Summarized financial information for Holdings as of March 31, 2002 is as follows (in thousands):

Cash and cash equivalents	\$	2,583
Accounts receivable, net of allowance for doubtful accounts of \$673		31,264
Inventories, net		41,971
Prepaid expenses and other current assets		4,388
Other assets, net (including restricted cash of \$608)		851

Total assets	\$	81,057
		=====
Trade accounts payable	\$	11,639
Accrued expenses		2,213
Debt (guaranteed by PFSweb)		53,779
Other debt		169
Note payable to affiliate		11,800
Members' capital:		
Capital contributions		1,000
Retained earnings		820
Unrealized loss on investment		(207)
Accumulated other comprehensive loss		(156)

Total members' capital		1,457

Total liabilities and members' capital	\$ 81,057
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Summarized operating information for Holdings for the three months ended March 31, 2002 is as follows (in thousands):

Net revenues	\$ 53,103
Cost of goods sold	50,080

Gross profit	3,023
Selling, general and administrative expenses	1,875

Income from operations	1,148
Interest expense	433

Income before income taxes	715
Income tax expense	296

Net income	\$ 419
	=====

LIQUIDITY AND CAPITAL RESOURCES

On May 25, 2001, we completed the sale of certain assets to Daisytek pursuant to an Asset Purchase Agreement (the "Purchase Agreement"). Under the Purchase Agreement, we transferred and sold to Daisytek certain distribution and fulfillment assets, including equipment and fixtures, that were previously used by us to provide outsourcing services to Daisytek. Daisytek also assumed certain related equipment leases and a warehouse lease and hired certain employees who were associated with the warehouse facility. The consideration payable under the Purchase Agreement of \$11.0 million included a termination by us and Daisytek of certain transaction management services agreements previously entered into between us and Daisytek and a Daisytek subsidiary. Proceeds of \$10.9 million were received for assets with an approximately \$4.5 million net book value with a resulting \$5.8 million gain, after closing costs of \$0.6 million. Concurrently with the closing of the asset sale, we and Daisytek also entered into a six-month transition services agreement, which terminated in November 2001, under which we provided Daisytek with certain transitional and information technology services.

Net cash used in operating activities was \$0.8 million for the three months ended March 31, 2002, and primarily resulted from cash used to fund operating losses and the net impact of an increase in accounts receivables of \$1.0 million, partially offset by an increase in accounts payable and accrued expenses of \$1.6 million and a decrease in prepaid expenses and other current assets of \$0.7 million. The increase in accounts receivable is primarily due to a \$1.2 million increase in credit card charges owed to us as part of the billing and collection services we perform on behalf of our clients. Once collected, these funds are remitted to our clients. The increase in accounts payable and accrued expenses is primarily due to a \$2.0 million increase in credit card charges collected or to be collected that are owed to our clients and were remitted in April. The decrease in other current assets primarily relates to the collection of VAT receivables associated with our European operations. Net cash provided by operating activities was \$5.4 million for the three months ended March 31, 2001, and primarily resulted from an increase in accounts payable and accrued expenses of \$2.5 million, decreases in accounts receivable of \$1.6 million and prepaid expenses and other current assets of \$1.5 million, partially offset by cash used to fund operating losses.

Net cash used by investing activities for the three months ended March 31, 2002 totaled \$0.6 million, representing capital expenditures of \$0.3 million, a \$0.2 million increase in our restricted cash balance to \$2.9 million, which is to secure our long-term debt and lease financing, and an increase of \$0.1 million in our subordinated loan to Supplies Distributors, which totaled

\$11.8 million at March 31, 2002. Cash used in investing activities for capital expenditures totaled \$1.2 million for the three months ended March 31, 2001. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of our facilities, both domestic and foreign. We expect to incur capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately \$2 to \$4 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. A portion of these expenditures may be financed through operating or capital leases.

Net cash used in financing activities was approximately \$33,000 for the three months ended March 31, 2002, representing the proceeds from debt and from the issuance of common stock pursuant to our employee stock purchase plan offset by payments on our long-term debt and capital lease obligations. Net cash used in financing activities was approximately \$10,000 for the three months ended March 31, 2001, representing payments on our capital lease obligations offset by the proceeds from issuance of common stock.

During the three months ended March 31, 2002, our working capital decreased to \$8.3 million from \$11.2 million at December 31, 2001, primarily due to the funding of operations and capital expenditures. In order to obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including utilizing capital or operating leases, establishing our own credit facility, entering into asset based lending or factoring programs, or transferring a portion of our subordinated loan balances, due from Supplies Distributors, to third-parties. In conjunction with these alternatives we may be required to provide certain letters of credit to secure these arrangements. No assurances can be given that we will be successful in obtaining any additional financing or the terms thereof. Additionally, in conjunction with Supplies Distributors finalizing its long-term financing objectives, we anticipate that up to several million of PFSweb's subordinated debt will be repaid in the June quarter. We currently believe that our cash position and funds generated from operations will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements and our lease obligations, and additional subordinated loans to Supplies Distributors, if necessary, for at least the next twelve months.

The following is a schedule of our total contractual cash and other obligations, which is comprised of operating leases, other obligations, which represents \$0.2 million of contingent obligations that we believe will be paid in the next twelve months, long-term debt and capital leases, including interest (in millions):

	OPERATING LEASES AND OTHER OBLIGATIONS	LONG-TERM DEBT AND CAPITAL LEASES	TOTAL CONTRACTUAL CASH AND OTHER OBLIGATIONS
	-----	-----	-----
Twelve Months Ended March 31,			
2003	\$ 6,254	\$ 1,367	\$ 7,621
2004	5,948	1,359	7,307
2005	3,371	950	4,321
2006	2,787	786	3,573
2007	2,606	531	3,137
Thereafter	1,904	496	2,400
	-----	-----	-----
Total contractual cash obligations	\$ 22,870	\$ 5,489	\$ 28,359
	=====	=====	=====

In support of certain debt instruments and leases, as of March 31, 2002, we had \$2.9 million of cash restricted in the form of letters of credit.

The letters of credit expire at various dates through July 2004. As described above, we have provided collateralized guarantees to secure the repayment of Supplies Distributors' credit facilities. As of March 31, 2002, the outstanding balance of the credit facilities guaranteed by PFSweb was approximately \$54.0 million. These guarantees expire concurrently with the expiration of the underlying credit agreements. To the extent Supplies Distributors or its subsidiaries fails to comply with its covenants, including its monthly financial covenant requirements, and the lenders accelerate the repayment of the credit facility obligations, Supplies Distributors or its subsidiaries would be required to repay all amounts outstanding thereunder. In such event, we would be obligated to perform under those guarantees and repay, to the extent Supplies Distributors or its subsidiaries was unable to, Supplies Distributors' or its subsidiaries credit facility obligations. Additionally, if we were unable to maintain our required level of stockholders' equity of \$25.0 million or if we were to violate any of the restricted transactions pursuant to the IBM Credit, IBM Belgium, or Congress agreements, we could also be obligated to perform under these guarantees. Any requirement to perform under our guarantees would have a material adverse impact on our financial condition and results of operations and no assurance can be given that we will have the financial ability to repay all of such guaranteed obligations. In addition, in the event Supplies Distributors or its subsidiaries is, or would be, in default of its obligations under its credit facilities, we are

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restricted from receiving any payment of our subordinated loans and such event would also have a material adverse impact upon our financial condition and results of operations. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. No liabilities have been recorded in the accompanying financial statements for these guarantee obligations. The Company does not have any other material commercial commitments.

Currently, we believe that we are operating with and incurring costs applicable to excess capacity in both our North American and European operations. We believe that as we add revenue, we will be able to cover our existing infrastructure and public company costs and reach profitability. We currently estimate that the net service fee revenue needed to leverage our infrastructure and reach profitability is approximately \$14 million per quarter. No assurance can be given that we can achieve such operating levels, or that, if achieved, we will be profitable in any particular fiscal period.

In the future, we may attempt to acquire other businesses to expand our services or capabilities in connection with our efforts to grow our business. We currently have no binding agreements to acquire any such businesses. Should we be successful in acquiring other businesses, we may require additional financing. Acquisitions involve certain risks and uncertainties. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire, whether we will be able to obtain financing to complete an acquisition, or whether we will be successful in operating the acquired business.

SEASONALITY

The seasonality of our business is dependent upon the seasonality of our clients' business and their sale of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix, our business activity will be at its lowest in the quarter ended March 31 and at its highest in the quarter ended June 30.

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

INFLATION

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2002, the Company adopted the provisions of EITF D-103 "Income Characterization of Reimbursements Received for 'Out-of -Pocket' Expenses Incurred." For the periods presented above, our billings for reimbursements of 'out-of-pocket' expenses, such as travel, and certain third-party vendor expenses such as shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses the accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company is currently assessing the impact on the consolidated financial statements and will adopt the provisions of this standard by the first quarter of 2003.

CRITICAL ACCOUNTING POLICIES

A description of critical accounting policies is included in footnote 2 to the accompanying unaudited interim condensed consolidated financial statements. For other significant accounting policies, see Note 2 to the consolidated financial statements in the Company's December 31, 2001 Annual Report on Form 10-K.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rate Risk

The carrying value of our financial instruments, which include cash and cash equivalents, accounts receivable, note receivable, accounts payable and capital lease obligations, approximate their fair values based on short terms to maturity or current market prices and rates. The impact of a 100 basis point change in interest rates would not have a material impact on the Company's results of operations or financial position.

Foreign Exchange Risk

Currently, our foreign currency exchange rate risk is primarily limited to Canadian dollars and the Euro. In the future, we believe our foreign currency exchange risk will also include other currencies applicable to certain of our international operations. We may, from time to time, employ a small number of derivative financial instruments to manage our exposure to fluctuations in foreign currency rate risk. To hedge our net investment and long-term intercompany payable balance we might enter into forward currency exchange contracts. We do not hold or issue derivative financial instruments for trading purposes or enter into foreign currency transactions for speculative purposes.

Effective April 1, 2001, in response to a change to the Euro for transaction activity previously conducted in the U.S. dollar by the Company's largest European client, the Company adopted the Euro as its functional currency for its European operations.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

EXHIBIT NO. -----	DESCRIPTION OF EXHIBITS -----
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1**	Agreement for Inventory Financing by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., Inventory Financing Partners, LLC and IBM Credit Corporation
10.2**	Amended and Restated Collateralized Guaranty by and between Priority Fulfillment Services, Inc. and IBM Credit Corporation
10.3**	Amended and Restated Guaranty to IBM Credit Corporation by PFSweb, Inc.
10.4**	Amended and Restated Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., Supplies Distributors, Inc. and IBM Credit Corporation
10.5**	Amended and Restated Platinum Plan Agreement (with Invoice Discounting) by and among Supplies Distributors, S.A., Business Supplies Distributors Europe B.V., PFSweb B.V., and IBM Belgium Financial Services S.A.
10.6**	Amended and Restated Collateralized Guaranty between Priority Fulfillment Services, Inc. and IBM Belgium Financial Services S.A.
10.7**	Amended and Restated Guaranty to IBM Belgium Financial Services S.A. by PFSweb, Inc.
10.8**	Subordinated Demand Note by and between Supplies Distributors, Inc. and Priority Fulfillment Services, Inc.
10.9**	Notes Payable Subordination Agreement between Congress Financial Corporation (Southwest) and Priority Fulfillment Services, Inc.
10.10**	Guarantee in favor of Congress Financial Corporation (Southwest) by Business Supplies Distributors Holdings, LLC, Priority Fulfillment Services, Inc. and PFSweb, Inc.
10.11**	General Security Agreement by Priority Fulfillment Services, Inc. in favor of Congress Financial Corporation (Southwest).
10.12**	Inducement Letter by Priority Fulfillment Services, Inc. and PFSweb, Inc. in favor of Congress Financial Corporation (Southwest).

* Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657).

** Filed herewith.

b) Reports on Form 8-K:

None.

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SIGNATURES

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

Date: May 15, 2002

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

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INDEX TO EXHIBITS

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10.2**	Amended and Restated Collateralized Guaranty by and between Priority Fulfillment Services, Inc. and IBM

Credit Corporation

- 10.3** Amended and Restated Guaranty to IBM Credit Corporation by PFSweb, Inc.
- 10.4** Amended and Restated Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., Supplies Distributors, Inc. and IBM Credit Corporation
- 10.5** Amended and Restated Platinum Plan Agreement (with Invoice Discounting) by and among Supplies Distributors, S.A., Business Supplies Distributors Europe B.V., PFSweb B.V., and IBM Belgium Financial Services S.A.
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** Filed herewith.

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC
 SUPPLIES DISTRIBUTORS, INC.
 PRIORITY FULFILLMENT SERVICES, INC.
 PFSWEB, INC.
 INVENTORY FINANCING PARTNERS, LLC
 AGREEMENT FOR INVENTORY FINANCING

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AGREEMENT FOR
INVENTORY FINANCING

This AGREEMENT FOR INVENTORY FINANCING (as amended, supplemented or otherwise modified from time to time, this "Agreement") is hereby made this 29th day of March, 2002 and amends and restates the Inventory and Working Capital Financing Agreement dated September 27, 2001 by and among IBM CREDIT CORPORATION, a Delaware corporation with a place of business at 4000 Executive Parkway, Third Floor, San Ramon, CA 94583 ("IBM Credit"), BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC, a limited liability company duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("Holdings"), INVENTORY FINANCING PARTNERS, LLC, a limited liability company duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("IFP"), SUPPLIES DISTRIBUTORS, INC. (formerly known as BSD Acquisition Corp.), a corporation duly organized under the laws of the state of

Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("Borrower"), PRIORITY FULFILLMENT SERVICES, INC., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("PFS") and PFSWEB, INC., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("PFSweb") (Borrower, Holdings, IFP, PFS, PFSweb, and any other entity that executes this Agreement or any Other Document, including without limitation all Guarantors, are each individually referred to as a "Loan Party" and collectively referred to as "Loan Parties").

WITNESSETH

WHEREAS, IBM Credit and Loan Parties are parties to that certain Inventory and Working Capital Existing Financing Agreement dated September 27, 2001 (as heretofore amended, the "Existing Financing Agreement");

WHEREAS, Loan Parties desire to enter into a financing facility with Congress Financial Corporation (Southwest), with a place of business located at 1201 Main Street, Dallas, Texas 75202 ("Congress") for the purpose of Congress financing the Borrower's working capital requirements and IBM Credit is willing to amend and restate the Existing Financing Agreement to discontinue financing the working capital needs of Borrower on the terms and conditions set forth herein;

WHEREAS, in the course of Borrower's operations, Borrower intends to purchase from Persons approved in writing by IBM Credit for the purposes of this Agreement (the "Authorized Suppliers") computer hardware and software products, including printer supplies, media supplies, print head bands and other printing-related products, manufactured or distributed by or bearing any trademark or trade name of such Authorized Suppliers (the "Products") (as of the date hereof the Authorized Suppliers are as set forth on Attachment E hereto);

WHEREAS, pursuant to an IBM Transaction Management Services Agreement dated as of August 14, 2001 as amended between Borrower and PFS ("PFS Agreement") and the Master Distributor Agreement dated August 14, 2001 as amended by and among International Business Machines Corporation ("IBM"), PFS, and Borrower, ("IBM Agreement"), PFS provides various transaction management services to Borrower including, but not limited to, distribution of Products to Borrower's customers, preparation and delivery of invoices for the sale of Products to Borrower's customers, and performance of certain accounting functions related thereto including the collection of accounts receivable;

WHEREAS, Borrower has requested that IBM Credit finance its purchase of Products from such Authorized Suppliers and IBM Credit is willing to provide such financing to Borrower subject to the terms and conditions set forth in this Agreement.

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NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

SECTION 1. DEFINITIONS; ATTACHMENTS

1.1. SPECIAL DEFINITIONS. The following terms shall have the following respective meanings in this Agreement (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance": any loan or other extension of credit by (or committed to be made by) IBM Credit to or on behalf of Borrower pursuant to this Agreement including, without limitation, (i) Product Advances and (ii) PRO Advances.

"Affiliate": with respect to any Person, any other Person (the "Affiliate") meeting one of the following: (i) at least 10% of the Affiliate's equity is owned, directly or indirectly, by such Person; (ii) at least 10% of such Person's equity is owned, directly or indirectly, by the Affiliate; or (iii) at least 10% of such Person's equity and at least 10% of the Affiliate's equity is owned, directly or indirectly, by the same Person or Persons. All of Loan Parties' officers, directors, joint venturers, and partners shall also be deemed to be Affiliates of such Loan Party for purposes of this Agreement.

"Agreement": as defined in the caption.

"Amended and Restated Holdings Stock Pledge Agreement": the amended and restated stock pledge agreement dated March 29, 2002 between Holdings and IBM Credit.

"Amended and Restated Notes Payable Subordination Agreement": as defined in Section 5.1 hereof;

"Auditors": a nationally recognized firm of independent certified public accountants selected by Borrower, Holdings or PFSweb (as applicable) and satisfactory to IBM Credit.

"Authorized Officer": shall mean the chief executive officer, president, or vice president or such other officer or authorized member of any Loan Party who is authorized to execute on such Loan Party's behalf any certification and documents or give notices and other communications in connection with this Agreement and the transactions contemplated hereunder.

"Authorized Suppliers": as defined in the recitals of this Agreement.

"Available Credit": at any time, (1) the Maximum Advance Amount less (2) the Outstanding Advances at such time.

"Average Daily Balance": for each Advance for a given period of time, the sum of the unpaid principal of such Advance as of each day during such period of time, divided by the number of days in such period of time.

"Borrower": as defined in the caption.

"Borrowing Base": as defined in Attachment A.

"Business Day": any day other than a Saturday, Sunday or other day on which commercial banks in New York, New York are generally closed or on which IBM Credit is closed.

"BSD Europe": means Supplies Distributors, S.A and Business Supplies Distributors Europe BV.

"Closing Date": the date on which the conditions precedent to the effectiveness of this Agreement set forth in Section 5.1 hereof are satisfied or waived in writing by IBM Credit.

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"Code": the Internal Revenue Code of 1986, as amended or any successor statute.

"Collateral": as defined in Section 4.1.

"Collateral Management Report": a report to be delivered by Borrower to IBM Credit from time to time, as provided herein, signed by the chief executive officer or chief financial officer of Borrower or other Authorized Officer, substantially in the form and detail of Attachment F hereto, detailing and certifying, among other items: a summary of Borrower's inventory on hand financed by IBM Credit by quantity, type, model, Authorized Supplier's invoice price to Borrower and the total of the line item values for all inventory listed on the report, the amounts and aging of Borrower's accounts payable as of a specified date, all of Borrower's IBM Credit borrowing activity during a specified period and the total amount of Borrower's Borrowing Base as well as Borrower's Outstanding PRO Advances, Outstanding Product Advances, Available Credit and any Shortfall Amount as of a specified date.

"Commercial Tort Claim": a claim arising in tort with respect to which (a) the claimant is an organization or (b) the claimant is an individual and the claim (i) arose in the course of the claimant's business or profession and (ii) does not include damages arising out of personal injury to or the death of the individual.

"Common Due Date": (1) the fifth day of a calendar month if the Product Financing Period or PRO Advance Term, whichever is applicable, expires on the first through tenth of such calendar month; (2) the fifteenth day of a calendar month if the Product Financing Period PRO Advance Term expires on the eleventh through twentieth of such calendar month; and (3) the twenty-fifth day of a calendar month if the Product Financing Period PRO Advance Term expires on the

twenty-first through the last day of such calendar month.

"Compliance Certificate": a certificate substantially in the form of Attachment C.

"Congress": as defined in the second "WHEREAS" clause hereof.

"Congress Credit Agreement": shall mean the Loan and Security Agreement dated March 29, 2002 between Borrower and Congress (as amended, modified, supplemented and any replacement thereof).

"Congress Intercreditor Agreement": shall mean that certain Intercreditor Agreement dated March 29, 2002 by and among Congress, IBM Credit and IBM Belgium Financial Services N.V. and acknowledged by Borrower, Holdings, PFS and PFSweb (as amended, modified, supplemented and any replacement thereof).

"Copyrights": (i) all copyrights arising under the laws of the United States, any other country or any political subdivision thereof, whether registered or unregistered and whether published or unpublished (including, without limitation, those listed in Attachment B), all registrations and recordings thereof, and all applications in connection therewith, including, without limitation, all registrations, recordings and applications in the United States Copyright Office, and (ii) the right to obtain all renewals thereof.

"Credit Line": as defined in Section 2.1.

"Default": either (1) an Event of Default or (2) any event or condition which, but for the requirement that notice be given or time lapse or both, would be an Event of Default.

"Delinquency Fee Rate": as defined on Attachment A.

"Deposit Account": a demand, time, savings, passbook, or similar account maintained with a bank.

"Domestic Subsidiary": a Subsidiary of any Loan Party that is incorporated in the United States or in the District of Columbia.

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"Environmental Laws": all statutes, laws, judicial decisions, regulations, ordinances, and other governmental restrictions relating to pollution, the protection of the environment, occupational health and safety, or to emissions, discharges or release of pollutants, contaminants, hazardous substances or wastes into the environment.

"Environmental Liability": any claim, demand, obligation, cause of action, allegation, order, violation, injury, judgment, penalty or fine, cost or expense, resulting from the violation or alleged violation of any Environmental Laws or the imposition of any Lien pursuant to any Environmental Laws.

"Equity Interests": with respect to any Person, means (a) all shares, interests, participations, rights or other equivalents (however designated, whether voting or non-voting) of or interests in corporate or capital stock, including, without limitation, shares of preferred or preference stock of such Person, (b) all partnership interests (whether general or limited) of such Person, (c) all membership interests or limited liability company interests in such Person, (d) all other equity or ownership interests in such Person of any other type and (e) all warrants, rights or options to purchase any of the foregoing.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended, or any successor statutes.

"Event of Default": as defined in Section 9.1.

"Financial Statements": the consolidated and consolidating balance sheets (including, without limitation, securities such as stocks and investment bonds), statements of operations, statements of cash flows and statements of changes in shareholder's equity for the period specified, prepared in accordance with GAAP and consistent with prior practices.

"Floor Plan Lender": any Person who now or hereinafter provides inventory financing to Borrower, provided that such Person executes an intercreditor

agreement or a subordination agreement with IBM Credit each in form and substance satisfactory to IBM Credit.

"Free Financing Period": for each Product Advance, the period, if any, in which IBM Credit does not charge Borrower a financing charge. IBM Credit shall calculate the Borrower's Free Financing Period utilizing a methodology that is consistent with the methodologies used for similarly situated customers of IBM Credit. The Borrower understands that IBM Credit may not offer, may change or may cease to offer a Free Financing Period for the Borrower's purchases of Products.

"Free Financing Period Exclusion Fee": as defined in Attachment A.

"GAAP": generally accepted accounting principles in the United States as in effect from time to time.

"General Intangibles": all "general intangibles" as such term is defined in the U.C.C and, in any event, including, without limitation, with respect to the Borrower, (a) all tax refunds, claims for tax refunds, and tax credits, (b) all permits, licenses, approvals, authorizations, consents, variances and certifications of any Governmental Authority, (c) all claims, tort claims and causes of action, (d) all property, casualty, liability, and other insurance of any kind or character, and all insurance claims and insurance refund claims, (e) all payment intangibles, (f) all lists, books, records, recorded knowledge, ledgers, files (whether in printed form or stored electronically), designs, blueprints, data, specifications, engineering reports, manuals, computer records, computer programs and computer software (including source codes), (g) all Internet domain names and web sites and related licenses and agreements, and (h) all contracts, agreements, instruments and indentures in any form, and portions thereof, to which Borrower is a party or under which Borrower has any right, title or interest or to which Borrower or any property of Borrower is subject, as the same may from time to time be amended, supplemented or otherwise modified, including, without limitation, (i) all rights of Borrower to receive moneys due and to become due to it thereunder or in connection therewith, (ii) all rights of Borrower to damages arising thereunder and (iii) all rights of Borrower to perform and to exercise all remedies thereunder.

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"Governmental Authority": any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled (through stock or capital ownership or otherwise) by any of the foregoing.

"Guarantor": means Holdings, PFSweb, PFS and any other party that delivers a guaranty in favor of IBM Credit.

"Hazardous Substances": all substances, wastes or materials, to the extent subject to regulation as "hazardous substances" or "hazardous waste" under any Environmental Laws.

"Holdings": as defined in the caption and a direct subsidiary of PFS and IFP.

"IBM Credit": as defined in the caption.

"IBM Belgium": means IBM Belgium Financial Services N.V.

"Indebtedness": with respect to any Person, (1) all obligations of such Person for borrowed money or for the deferred purchase price of property or services (other than trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices) or which is evidenced by a note, bond, debenture or similar instrument, (2) all obligations of such Person under capital leases (including obligations under any leases such Person may enter into, now or in the future, with IBM Credit), (3) all obligations of such Person in respect of letters of credit, banker's acceptances or similar obligations issued or created for the account of such Person, (4) liabilities arising under any interest rate protection, future, option swap, cap or hedge agreement or arrangement under which such Person is a party or beneficiary, (5) all obligations under guaranties by such Person and (6) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"Intellectual Property": as defined in Section 6.14.

"IFP": as defined in the caption and the owner of Fifty-one Percent (51%) of Holdings.

"Investment": with respect to any Person (the "Investor"), (1) any investment by the Investor in any other Person, whether by means of share purchase, capital contribution, purchase or other acquisition of a partnership or joint venture interest, loan, time deposit, demand deposit or otherwise, and (2) any guaranty by the Investor of any Indebtedness or other obligation of any other Person.

"Investment Property": the collective reference to (i) all "investment property" as such term is defined in the U.C.C. and (ii) whether or not constituting "investment property" as so defined, all Pledged Interests.

"Letter of Credit Right": any right to payment or performance under a letter of credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance.

"LIBOR": as of the date of determination, the thirty-day average of the one-month London Interbank Offered Rate as published by Bloomberg, L.P. ("Bloomberg") or any successor financial services for the previous calendar month or, in the event such average is no longer published by Bloomberg or any successor financial services, such other thirty (30) day average as IBM Credit may use for determining "LIBOR" in its reasonable discretion. LIBOR is based on a 360-day calendar year.

"Lien(s)": any lien, claim, charge, pledge, security interest, deed of trust, mortgage, other encumbrance or other arrangement having the practical effect of the foregoing, including the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement.

"Loan Parties": as defined in the caption.

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"Material Adverse Effect": a material adverse effect (1) on the business, operations, results of operations, assets, or financial condition of any Loan Party, (2) on the aggregate value of the Collateral or the collateral granted to IBM Credit by any other Loan Party under the Other Documents ("Other Collateral") or the aggregate amount which IBM Credit would be likely to receive (after giving consideration to reasonably likely delays in payment and reasonable costs of enforcement) in the liquidation of such Collateral or Other Collateral to recover the Obligations in full, or (3) on the rights and remedies of IBM Credit under this Agreement or any Other Documents.

"Maximum Advance Amount": at any time, the lesser of (1) the Credit Line and (2) the Borrowing Base at such time.

"Obligations": all covenants, agreements, warranties, duties, representations, loans, advances, interest (including interest accruing on or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to any Loan Party, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), fees, reasonable expenses, indemnities, liabilities and Indebtedness of any kind and nature whatsoever now or hereafter arising, owing, due or payable from any Loan Party to IBM Credit.

"Open Approvals": Product Advances committed to be made by IBM Credit under this Agreement for which (1) Products have not been delivered by Authorized Supplier to Borrower or (2) Products have been delivered to Borrower but for which IBM Credit has not received the invoice associated with such Products from Authorized Supplier.

"Other Charges": as set forth in Attachment A.

"Other Documents": all security agreements, mortgages, leases, instruments, documents, guarantees, schedules of assignment, contracts and similar agreements executed by any Loan Party and delivered to IBM Credit, pursuant to this Agreement, including, without limitation, the amended and restated collateralized guaranty executed by Holdings in favor of IBM Credit, the amended and restated collateralized guaranty executed by PFS in favor of IBM Credit, the amended and restated corporate guaranty executed by PFSweb in favor of IBM

Credit, the amended and restated notes payable subordination agreement between IBM Credit and PFS, the Amended and Restated Holdings Stock Pledge Agreement, the and all amendments, supplements and other modifications to the foregoing from time to time.

"Outstanding Advances": at any time of determination, the sum of (1) the unpaid principal amount of all Outstanding PRO Advances and Outstanding Product Advances made by IBM Credit under this Agreement and (2) any finance charge, fee, expense or other amount related to Advances charged to Borrower's account with IBM Credit.

"Outstanding PRO Advances": at any time of determination, the sum of (1) the unpaid principal amount of all PRO Advances made by IBM Credit under this Agreement; and (2) any finance charge, fee, expense or other amount related to PRO Advances charged to Borrower's account with IBM Credit.

"Outstanding Product Advances": at any time of determination, the sum of (1) the unpaid principal amount of all Product Advances made (including Open Approvals issued) by IBM Credit under this Agreement; and (2) any finance charge, fee, expense or other amount related to Product Advances charged to Borrower's account with IBM Credit.

"Patents": (i) all letters patent including, without limitation, all utility patents, design patents, industrial designs and utility model registrations of the United States or any other country, or any political subdivision thereof and all reissues and extensions thereof, including, without limitation, those listed on Attachment B, (ii) all applications for letters patent of the United States or any other country and all divisions, continuations and continuations-in-part thereof, including, without limitation, those listed on Attachment B, and (iii) all rights to obtain any reissues, reexaminations, or extensions of the foregoing.

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"PBGC": as defined in Section 6.12.

"Permitted Indebtedness": shall mean any of the following:

- (1) Indebtedness to IBM Credit;
- (2) Indebtedness of BSD Europe (in the aggregate) to IBM Belgium and the guaranty thereof by Holdings in a principal amount not to exceed the lesser of (a) (i) \$27,000,000 Euro for the period from the date hereof through and including June 30, 2002 and (ii) \$22,000,000 Euro for the period after June 30, 2002 and (b) the amount of the (in the aggregate) credit line between BSD Europe and IBM Belgium;
- (3) Indebtedness described in Section VIII of Attachment B;
- (4) Indebtedness to any Floor Plan Lender;
- (5) Purchase Money Indebtedness;
- (6) guaranties in favor of IBM Credit;
- (7) other Indebtedness consented to by IBM Credit in writing prior to incurring such Indebtedness;
- (8) unsecured Indebtedness in respect of any interest rate protection, future, option, swap, cap or hedge agreement or arrangement under which any Loan Party is a party or beneficiary;
- (9) any Indebtedness in favor of Congress under the Congress Credit Agreement, as the same may be amended in accordance with the Congress Intercreditor Agreement which Indebtedness is subject to the Congress Intercreditor Agreement;
- (10) the guaranties executed by Holdings, PFS, and PFSweb in favor of Congress;
- (11) Guaranty executed by Borrower in favor of Fortis Commercial Finance N.V. guaranteeing the obligations of Supplies Distributors S.A. in an amount not to exceed 200,000 Euro; and

(12) Guaranty executed by PFSweb in favor of IBM.

"Permitted Liens": shall mean any of the following:

- (1) Liens which are the subject of an intercreditor agreement, in effect from time to time between IBM Credit and any other secured creditor, including the Liens in favor of Congress under the Congress Credit Agreement or created pursuant thereto;
- (2) Purchase Money Security Interests;
- (3) Liens described in Section II of Attachment B;
- (4) Liens of warehousemen, mechanics, materialmen, workers, repairmen, common carriers, landlords and other similar Liens arising by operation of law or otherwise, not waived in connection herewith, for amounts that are not yet due and payable or being contested in good faith by appropriate proceedings promptly instituted and diligently conducted if an adequate reserve or other appropriate provisions shall have been made therefor as required to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect;
- (5) attachment or judgment Liens individually or in the aggregate not in excess of \$250,000 (exclusive of (A) any amounts that are duly bonded to the satisfaction of IBM Credit or (B) any amount fully covered by insurance as to which the insurance company has acknowledged its obligation to pay such judgment in full);
- (6) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of Borrower;
- (7) extensions and renewals of the foregoing Permitted Liens; provided that (A) the aggregate amount of such extended or renewed Liens do not exceed the original principal amount of the Indebtedness which it secures, (B) such Liens do not extend to any property other than property already previously subject to the Lien and (C) such extended or renewed Liens are on terms and conditions no more restrictive than the terms and conditions of the Liens being extended or renewed;
- (8) Liens arising from deposits or pledges to secure bids, tenders, contracts, leases, surety and appeal bonds and other obligations of like nature arising in the ordinary course of the Borrower's business;
- (9) Liens for taxes, assessments or governmental charges not delinquent or being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted if an adequate reserve or other appropriate provisions shall have been made therefor as required in order to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect;
- (10) Liens arising out of deposits in connection with workers' compensation, unemployment insurance or other social security or similar legislation;
- (11) Liens arising pursuant to this Agreement; and
- (12) other Liens in favor of any Affiliate of IBM Credit or otherwise consented to by IBM Credit in writing prior to incurring such Lien.

"Person": any individual, association, firm, corporation, partnership, trust, unincorporated organization or other entity whatsoever.

"PFS": as defined in the caption and a wholly owned subsidiary of PFSweb.

"PFS Agreement": as defined in the Recitals of this Agreement.

"PFSweb": as defined in the caption.

"Plans": as defined in Section 6.12.

"Pledged Interests": all Equity Interests of or in any Person that may be issued or granted to, or held or owned by , Borrower, including, without limitation, the Equity Interests described on Attachment B hereto, and all certificates representing such Equity Interests.

"Policies": all policies of insurance required to be maintained by Borrower under this Agreement or any of the Other Documents.

"Prime Rate": as of the date of determination, the average of the rates of interest announced by Citibank, N.A., Chase Manhattan Bank and Bank of America National Trust & Savings Association (or any other bank which IBM Credit uses in its normal course of business of determining Prime Rate) as their prime or base rate, as of the last Business Day of the calendar month immediately preceding the date of determination, whether or not such announced rates are the actual rates charged by such banking institutions to their most creditworthy borrowers.

"PRO Advance": a PRO Advance, with a PRO Advance Term, made by IBM Credit to itself on behalf of Borrower to repay all or a portion of a Product Advance that is due and payable.

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"PRO Advance Date": the Business Day on which IBM Credit makes a PRO Advance under this Agreement.

"PRO Advance Term": for each PRO Advance, a period, in increments of ten days as specified by Borrower in the Request for PRO Advance with respect to such PRO Advance, but in no event in excess of thirty days, commencing on the PRO Advance Date for such PRO Advance.

"PRO Finance Charges": as defined on Attachment A.

"Proceeds": all "proceeds" as such term is defined in the UCC and, in any event, shall include, without limitation, all dividends, distributions and payments on, from or with respect to Investment Property.

"Products": as defined in the recitals of this Agreement.

"Product Advance": any advance of funds made or committed to be made by IBM Credit for the account of Borrower to an Authorized Supplier in respect of an invoice delivered or to be delivered by such Authorized Supplier to IBM Credit describing Products purchased by Borrower, including without limitation Open Approvals.

"Product Financing Charge": as defined on Attachment A.

"Product Financing Period": for each Product Advance, a period of days equal to that set forth in Attachment A from time to time, commencing on the invoice date of such Product Advance.

"Purchase Money Indebtedness": any Indebtedness (including capital leases) incurred to finance the acquisition of assets (other than assets manufactured or distributed by or bearing any trademark or trade name of any Authorized Supplier) to be used in the Borrower's business not to exceed the lesser of (1) the purchase price or acquisition cost of such asset and (2) the fair market value of such asset.

"Purchase Money Security Interest": any security interest securing Purchase Money Indebtedness, which security interest applies solely to the particular asset acquired with the Purchase Money Indebtedness.

"Requirement of Law": as to any Person, the articles of incorporation and by-laws of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other governmental authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Sales Agreements": shall mean collectively (i) the Agreement dated as of August 20, 2001 between IBM and the Borrower for Sales Force Services and (ii) the Sales Force Agreement dated as of August 20, 2001 between the Borrower and Global Marketing Services.

"Shortfall Amount": as defined in Section 2.5.

"Shortfall Transaction Fee": as defined in Attachment A.

"Subsidiary": with respect to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions are at the time directly or indirectly owned by such Person.

"Supplier Credits": as defined in Section 2.2.

"Supporting Obligation": any Letter of Credit Right or secondary obligation that supports the payment or performance of an Account, chattel paper, a document, a General Intangible, an instrument, Investment Property, or any other Collateral.

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"Termination Date": shall mean the first anniversary of the date of this Agreement or such other date as IBM Credit and Loan Parties may agree to in writing from time to time.

"Trademarks": (i) all trademarks, trade names, corporate names, company names, business names, fictitious business names, service marks, logos, words, terms, names, symbols and devices and all combinations thereof, and all other source or business identifiers, and all goodwill of the business connected with the use thereof as symbolized thereby, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, and all common-law rights related thereto, including, without limitation those listed on Attachment B, and (ii) the right to obtain all renewals and extensions thereof.

"Transaction Documents": shall mean collectively the IBM Agreement, the PFS Agreement and the Sales Agreements.

"Voting Stock": securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or persons performing similar functions).

1.2. OTHER DEFINED TERMS. Terms not otherwise defined in this Agreement which are defined in the Uniform Commercial Code as in effect in the State of New York on the date of this Agreement (the "U.C.C.") shall have the meanings assigned to them therein.

1.3. ATTACHMENTS. All attachments, exhibits, schedules and other addenda hereto, including, without limitation, Attachment A and Attachment B, are specifically incorporated herein and made a part of this Agreement.

SECTION 2. CREDIT LINE/FINANCE CHARGES/OTHER CHARGES

2.1. CREDIT LINE. Subject to the terms and conditions set forth in this Agreement, on and after the Closing Date to but not including the date that is the earlier of (x) the date on which this Agreement is terminated pursuant to Section 10 and (y) the date on which IBM Credit terminates the Credit Line pursuant to Section 9, IBM Credit agrees to extend to the Borrower a credit line ("Credit Line") in the amount set forth in Attachment A pursuant to which IBM Credit will make to the Borrower, from time to time, Advances in an aggregate amount at any one time outstanding not to exceed the Maximum Advance Amount. Notwithstanding any other term or provision of this Agreement, IBM Credit may, at any time and from time to time, in its sole discretion (x) temporarily increase the amount of the Credit Line above the amount set forth in Attachment A and decrease the amount of the Credit Line back to the amount of the Credit Line set forth in Attachment A, in each case upon written notice to the Borrower and (y) make Advances pursuant to this Agreement upon the request of Borrower in an aggregate amount at any one time outstanding in excess of the Credit Line.

2.2. PRODUCT ADVANCES. (A) Subject to the terms and conditions of this Agreement, IBM Credit shall make Product Advances in connection with Borrower's purchase of Products from Authorized Suppliers upon at least a two-day prior written notice from Authorized Suppliers. Borrower hereby authorizes and directs

IBM Credit to pay the proceeds of Product Advances directly to the applicable Authorized Supplier in respect of invoices delivered to IBM Credit for such Products by such Authorized Supplier and acknowledges that (i) any delivery to IBM Credit of an invoice by an Authorized Supplier shall be deemed as a request for a Product Advance by Borrower, and (ii) each such Product Advance constitutes a loan by IBM Credit to Borrower pursuant to this Agreement as if the Borrower received the proceeds of the Product Advance directly from IBM Credit. IBM Credit may, upon written notice to Borrower, cease to include a supplier as an Authorized Supplier.

(B) No finance charge shall accrue on any Product Advance during the Free Financing Period, if any, applicable to such Product Advance. Each Product Advance shall be due and payable on the Common Due Date for such Product Advance. Borrower may at its option, repay each Product Advance by requesting IBM Credit to apply all or any part of the principal amount of an PRO Advance to

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the Outstanding Product Advances. Borrower's request for such application shall be made in accordance with Section 2.3. When so requested and subject to the terms and conditions of this Agreement, IBM Credit shall apply the amount so requested to the amounts due in respect of the Outstanding Product Advances. Nothing contained herein shall relieve Borrower of its obligation to repay Product Advances when due. Each Product Advance shall accrue a finance charge on the Average Daily Balance thereof from and including the first (1st) day following the end of the Free Financing Period, if any, for such Product Advance, or if no such Free Financing Period shall be in effect, from and including the date of invoice for such Product Advance, in each case, to and including the date such Product Advance shall become due and payable in accordance with the terms of this Agreement, at a per annum rate equal to the lesser of (a) the finance charge set forth in Attachment A to this Agreement as the "Product Financing Charge" and (b) the highest rate from time to time permitted by applicable law.

In addition, for any Product Advance with respect to which a Free Financing Period shall not be in effect, Borrower shall pay a Free Financing Period Exclusion Fee. Such fee shall be due and payable on the Common Due Date for such Product Advance. If it is determined that amounts received from Borrower were in excess of the highest rate permitted by law, then the amount representing such excess shall be considered reductions to principal of Advances.

(C) Borrower acknowledges that IBM Credit does not warrant the Products. Borrower shall be obligated to pay IBM Credit in full even if the Products are defective or fail to conform to the warranties extended by the Authorized Supplier. The Obligations of Borrower shall not be affected by any dispute Borrower may have with any manufacturer, distributor or Authorized Supplier. Borrower will not assert any claim or defense which it may have against any manufacturer, distributor or Authorized Supplier against IBM Credit.

(D) Borrower hereby authorizes IBM Credit to collect directly from any Authorized Supplier any credits, rebates, bonuses or discounts owed by such Authorized Supplier to Borrower ("Supplier Credits"). Any Supplier Credits received by IBM Credit may be applied by IBM Credit to the Outstanding Advances. Any Supplier Credits collected by IBM Credit shall in no way reduce Borrower's debt to IBM Credit in respect of the Outstanding Advances until such Supplier Credits are applied by IBM Credit; provided, however, that in the event any such Supplier Credits must be returned or disgorged or are otherwise unavailable for application, then Borrower's Obligations will be reinstated as of the date that IBM Credit actually returns or repays such Supplier Credits. Upon the Borrower's request, and provided there is no Event of Default or dispute with respect to such Supplier Credits, IBM Credit shall remit the Supplier Credits directly to Borrower within five (5) Business Days of IBM Credit's receipt of such Supplier Credits.

(E) IBM Credit may apply any payments and Supplier Credits received by IBM Credit to reduce finance charges first and then to principal amounts of Advances owed by Borrower. IBM Credit may apply principal payments to the oldest (earliest) invoices (and related Product Advances) first, but, in any case, all principal payments will be applied in respect of the Outstanding Product Advances made for Products which have been sold, lost, stolen, destroyed, damaged or otherwise disposed of prior to any other application thereof.

(F) Borrower will indemnify and hold IBM Credit harmless from and against

any claims or demands asserted by any Person relating to or arising from the Products for any reason whatsoever, including, without limitation, the condition of the Products, any misrepresentation made about the Products by any representative of Borrower, or any act or failure to act by Borrower except to the extent such claims or demands are directly attributable to IBM Credit's gross negligence or willful misconduct. Nothing contained in the foregoing shall impair any rights or claims which the Borrower may have against any manufacturer, distributor or Authorized Supplier.

2.3. PRO ADVANCES. (A) Whenever Borrower shall desire IBM Credit to provide a PRO Advance, Borrower shall deliver to IBM Credit written notice of Borrower's request for such an Advance ("Request for PRO Advance"). The Request for PRO Advance shall specify (i) the amount of the PRO Advance the PRO Advance Term for such PRO Advance; and (ii) for each PRO Advance, the month, day and year of the Common Due Date, as set forth in Borrower's applicable billing statement from IBM Credit, for the

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Product Advance to which the PRO Advance is to be applied. Borrower may deliver a Request for PRO Advance via facsimile. Any Request for PRO Advance delivered to IBM Credit shall be irrevocable. Notwithstanding any other provision of this Agreement, Borrower shall not (i) request more than one PRO Advance in respect of any Product Advance; and (ii) request a PRO Advance for any Common Due Date on which Borrower will take a discount offered by IBM Credit for invoice amounts paid in full within fifteen days of the invoice date under IBM Credit's High Turnover Option ("HTO") Program. All PRO Advances shall be applied to Outstanding Product Advances.

(B) Each PRO Advance shall accrue a finance charge on the Average Daily Balance thereof, from and including the date of each PRO Advance to and including the date such PRO Advance is due and payable in accordance with the terms of this Agreement, at a per annum rate equal to the lesser of (a) the finance charge set forth in Attachment A to this Agreement under the caption "PRO Finance Charge", and (b) the highest rate from time to time permitted by applicable law. If it is determined that amounts received from the Borrower were in excess of such highest rate, then the amount representing such excess shall be considered reductions to principal of Advances.

(C) Unless otherwise due and payable at an earlier date, the unpaid principal amount of each PRO Advance shall be due and payable on the applicable Common Due Date.

2.4. FINANCE AND OTHER CHARGES. (A) Finance charges for an Advance for a calendar month shall be equal to (i) one twelfth (1/12) of the applicable Product Financing Charge or PRO Finance Charge multiplied by (ii) the Average Daily Balance of such Advance for the period when such finance charge accrues during such calendar month multiplied by (iii) the actual number of days during such calendar month when such finance charge accrues divided by (iv) thirty (30).

Late charges pursuant to subsection (D) of this Section 2.4 for an Advance for a calendar month shall be equal to (i) one twelfth (1/12) of the Delinquency Fee Rate multiplied by (ii) the Average Daily Balance of such Advance for the period when such Advance is past due during such calendar month multiplied by (iii) the actual number of days during such calendar month when such Advance is past due divided by (iv) thirty (30).

(B) The Borrower hereby agrees to pay to IBM Credit the charges set forth as "Other Charges" in Attachment A. The Borrower also agrees to pay IBM Credit additional charges for any returned items of payment received by IBM Credit. The Borrower hereby acknowledges that any such charges are not interest but that such charges, if unpaid, will constitute part of the Outstanding Advances.

(C) The finance charges and Other Charges owed under this Agreement, and any charges hereafter agreed to in writing by the parties, are payable monthly on receipt of IBM Credit's bill or statement therefor or IBM Credit may, in its sole discretion, add unpaid finance charges and Other Charges to the Borrower's Outstanding Advances.

(D) If any amount owed under this Agreement, including, without limitation, any Advance, is not paid when due (whether at maturity, by acceleration or otherwise), the unpaid amount thereof will bear a late charge from and including

the day after such Advance was due and payable to and including the date IBM Credit receives payment thereof, at a per annum rate equal to the lesser of (a) the amount set forth in Attachment A to this Agreement as the "Delinquency Fee Rate" and (b) the highest rate from time to time permitted by applicable law. In addition, if any Shortfall Amount shall not be paid when due pursuant to Section 2.5 hereof, Borrower shall pay IBM Credit a Shortfall Transaction Fee. If it is determined that amounts received from Borrower were in excess of such highest rate, then the amount representing such excess shall be considered reductions to principal of Advances.

2.5. BORROWER ACCOUNT STATEMENTS. IBM Credit will send statements of each transaction hereunder as well as monthly billing statements to Borrower with respect to Advances and other charges due on Borrower's account with IBM Credit. Each statement of transaction and monthly billing statement shall be deemed, absent manifest error, to be correct and shall constitute an account stated with respect to each transaction or amount described therein unless within seven (7) Business Days after such statement of

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transaction or billing statement is received by Borrower, Borrower provides IBM Credit written notice objecting that such amount or transaction is incorrectly described therein and specifying the error(s), if any, contained therein. IBM Credit may at any time adjust such statements of transaction or billing statements to comply with applicable law and this Agreement.

2.6. SHORTFALL. If, on any date, the Outstanding Advances shall exceed the Maximum Advance Amount (such excess, the "Shortfall Amount"), then the Borrower shall on such date prepay the Outstanding Advances in an amount equal to such Shortfall Amount. If Borrower does not pay the Shortfall Amount on such date, PFS agrees unconditionally and irrevocably to pay the Shortfall Amount upon written demand by IBM Credit.

2.7. APPLICATION OF PAYMENTS. Borrower hereby agrees that all checks and other instruments delivered to IBM Credit on account of Borrower's Obligations shall constitute conditional payment until such items are actually collected by IBM Credit. Borrower waives the right to direct the application of any and all payments at any time or times hereafter received by IBM Credit on account of the Borrower's Obligations. Borrower agrees that IBM Credit shall have the continuing exclusive right to apply and reapply any and all such payments to Borrower's Obligations in such manner as IBM Credit may deem advisable notwithstanding any entry by IBM Credit upon any of its books and records.

2.8. PREPAYMENT AND REBORROWING BY BORROWER. (A) Borrower may at any time prepay, without notice or penalty, in whole or in part amounts owed under this Agreement. IBM Credit may apply payments made to it (whether by the Borrower or otherwise) to pay finance charges and other amounts owing under this Agreement first and then to the principal amount owed by the Borrower.

(B) Subject to the terms and conditions of this Agreement, any amount prepaid or repaid to IBM Credit in respect to the Outstanding Advances may be reborrowed by Borrower in accordance with the provisions of this Agreement.

SECTION 3. CREDIT LINE ADDITIONAL PROVISIONS

3.1. AUTHORIZATION TO FILE; POWER OF ATTORNEY. The Borrower authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM Credit as secured party, and Borrower as debtor and identifying IBM Credit's security interest in the Collateral that IBM Credit deems necessary to perfect and maintain perfected the security interest of IBM Credit in the Collateral. Each of the Borrower and PFS (as applicable) hereby irrevocably appoints IBM Credit, with full power of substitution, as its true and lawful attorney-in-fact with full power, in good faith and in compliance with commercially reasonable standards, in the discretion of IBM Credit, to:

(A) sign the name of Borrower on any document or instrument that IBM Credit shall deem necessary or appropriate to perfect and maintain perfected the security interest in the Collateral contemplated under this Agreement and the Other Documents;

upon the occurrence and during the continuance of an Event of Default as defined in Section 9.1 hereof:

(B) endorse the name of Borrower or PFS upon any of the items of payment of proceeds of collateral and apply the same to the Obligations;

(C) sign the name of Borrower or PFS on any document or instrument that IBM Credit shall deem necessary or appropriate to enforce any and all remedies it may have under this Agreement, at law or otherwise;

(D) make, settle and adjust claims under the Policies with respect to the Collateral and endorse any Loan Party's name on any check, draft, instrument or other item of payment of the proceeds of the Policies with respect to the Collateral; and

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(E) take control in any manner of any term of payment or proceeds and for such purpose to notify the postal authorities to change the address for delivery of mail addressed to any such Loan Party to such address as IBM Credit may designate.

The power of attorney granted by this Section is for value and coupled with an interest and is irrevocable so long as this Agreement is in effect or any Obligations remain outstanding. Nothing done by IBM Credit pursuant to such power of attorney will reduce any Loan Party's Obligations other than Borrower's payment Obligations to the extent IBM Credit has received monies.

SECTION 4. SECURITY -- COLLATERAL

4.1. GRANT. To secure Borrower's full and punctual payment and performance of the Obligations (including obligations under any leases Borrower may enter into, now or in the future, with IBM Credit) when due (whether at the stated maturity, by acceleration or otherwise), Borrower hereby grants IBM Credit a security interest in all of Borrower's right, title and interest in and to the following property, whether now owned or hereafter acquired or existing and wherever located:

(A) all goods, including, all inventory and equipment, and all parts thereof, attachments, accessories and accessions thereto, products thereof and documents therefor;

(B) all accounts, contract rights (including without limitation, the Transaction Documents), chattel paper, instruments, negotiable documents, promissory notes, obligations of any kind owing to Borrower, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and all books, invoices, documents and other records in any form evidencing or relating to any of the foregoing;

(C) all General Intangibles;

(D) all Deposit Accounts;

(E) all Commercial Tort Claims;

(F) all Intellectual Property;

(G) all Investment Property;

(H) all Letter of Credit Rights;

(I) all Supporting Obligations;

(J) all other obligations of any kind owing to Borrower, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services;

(K) all rights now or hereafter existing in and to all mortgages, security agreements, leases, the Transaction Documents or other contracts securing or otherwise relating to any of the foregoing; and

(L) all substitutions and replacements for all of the foregoing, and all products or proceeds of all of the foregoing and, to the extent not otherwise included, all payments under insurance or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the

foregoing.

All of the above assets shall be collectively defined herein as the "Collateral". Borrower covenants and agrees with IBM Credit that: (a) the security constituted to by this Agreement is in addition to any other security from time to time held by IBM Credit and (b) the security hereby created is a continuing security interest and will cover and secure the payment of all obligations both present and future of Borrower to IBM Credit and (c) any transfer of assets between any Loan Party is subject to IBM Credit's continuing

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security interest in the Collateral of the transferor as well as IBM Credit's continuing security interest in the Collateral of the transferee.

PFS consents to the Borrower assigning all of its right, title, and interest in and to the Transaction Documents as Collateral to secure the payment of all obligations of Borrower to IBM Credit, including, without limitation, the right to monies and funds of Borrower collected or otherwise held by PFS in connection with the PFS Agreement and to collect and hold all such monies and funds in trust and on behalf of Borrower and IBM Credit.

4.2. FURTHER ASSURANCES. Borrower and PFS shall, from time to time upon the request of IBM Credit, execute and deliver to IBM Credit, or cause to be executed and delivered, at such time or times as IBM Credit may request such other and further documents, certificates and instruments that IBM Credit may deem necessary to perfect and maintain perfected IBM Credit's security interests in the Collateral and the Other Collateral and in order to fully consummate all of the transactions contemplated under this Agreement and the Other Documents. PFS and Borrower shall make appropriate entries on its books and records disclosing IBM Credit's security interests in the Collateral.

SECTION 5. CONDITIONS PRECEDENT

5.1. CONDITIONS PRECEDENT TO THE EFFECTIVENESS OF THIS AGREEMENT. The effectiveness of this Agreement is subject to the receipt by IBM Credit of, or waiver in writing by IBM Credit of compliance with, the following conditions precedent:

(A) this Agreement executed and delivered by each Loan Party and IBM Credit;

(B) a favorable opinion of counsel for Loan Parties in substantially the form of Attachment H;

(C) a certificate of the secretary or an assistant secretary of each Loan Party, substantially in the form and substance of Attachment I hereto, certifying that, among other items, (i) each Loan Party is duly organized under the laws of the State of its organization or incorporation and has its principal place of business as stated therein, (ii) each Loan Party is registered to conduct business in specified states and localities, (iii) true and complete copies of the articles of incorporation, or corresponding organizational documents, as applicable, and by-laws of each Loan Party are delivered therewith, together with all amendments and addenda thereto as in effect on the date thereof, (iv) the resolution as stated in the certificate is a true, accurate and compared copy of the resolution adopted by each Loan Party's Board of Directors or, if a Loan Party is a limited liability company, by such Loan Party's authorized members, authorizing the execution, delivery and performance of this Agreement and each Other Document executed and delivered in connection herewith, and (v) the names and true signatures of the officers of each Loan Party authorized to sign this Agreement and the Other Documents;

(D) certificates dated as of a recent date from the Secretary of State or other appropriate authority evidencing the good standing of each Loan Party in the jurisdiction of its organization and in each other jurisdiction where the ownership or lease of its property or the conduct of its business requires it to qualify to do business;

(E) Congress Intercreditor Agreement, in form and substance satisfactory to IBM Credit, executed by IBM Credit, IBM Belgium Financial Services N.V., and Congress and acknowledged by Borrower, Holdings, PFS and PFSweb;

(F) the preliminary consolidating Financial Statements of Borrower,

Holdings and PFSweb for fiscal year ended December 31, 2001 in form and substance satisfactory to IBM Credit in its sole discretion;

(G) copies of all approvals and consents from any Person, in each case in form and substance satisfactory to IBM Credit, which are required to enable each Loan Party to authorize, or required in connection with, (a) the execution, delivery or performance of this Agreement and each of the

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Other Documents, and (b) the legality, validity, binding effect or enforceability of this Agreement and each of the Other Documents;

(H) amended and restated notes payable subordination executed by PFS in favor of IBM Credit in form and substance satisfactory to IBM Credit in its sole discretion ("Amended and Restated Notes Payable Subordination Agreement");

(I) Subordinated Demand Note in the amount of Six Million Five Hundred Thousand Dollars (\$6,500,000) executed by Borrower and endorsed payable to IBM Credit;

(J) amended and restated collateralized guaranties executed by each of Holdings and PFS in favor of IBM Credit in form and substance satisfactory to IBM Credit in its sole discretion;

(K) amended and restated corporate guaranty executed by PFSweb in favor of IBM Credit in form and substance satisfactory to IBM Credit in its sole discretion.

(L) the amended and restated pledge by Holdings of one hundred percent (100%) of the stock of its Domestic Subsidiaries and sixty-five percent (65%) of the stock of each of its Subsidiaries incorporated outside the USA (the "Holdings Stock Pledge Agreement") along with undated stock powers and stock certificates with respect to the shares of stock pledged in form and substance satisfactory to IBM Credit in its sole discretion;

(M) acknowledgment executed by PFS pursuant to Section 9-313(C) of the U.C.C. which acknowledgment shall be in form and substance satisfactory to IBM Credit in its sole discretion;

(N) the Notice of Assignment as defined in Section 9.3(A) (ii) executed by PFS in form and substance satisfactory to IBM Credit in its sole discretion;

(O) the Collateral Assignment of Intercompany Note and Liens dated the date hereof between the Borrower and IBM Credit;

(P) IBM's consent to the Borrower assigning all of its right, title, and interest in and to the IBM Agreement as Collateral to secure the payment of all Obligations of Borrower to IBM Credit;

(Q) absence of any material adverse change in any Loan Party's or any Guarantor's condition (financial or otherwise), its operations, assets, income and/or prospects;

(R) UCC-1 financing statements for each jurisdiction reasonably requested by IBM Credit executed by each of Holdings, PFS and the Borrower as necessary to perfect the security interests contemplated by Section 4.1 of this Agreement and contemplated under the amended and restated collateralized guaranties referred to above;

(S) control or other agreements for all other deposit accounts, letter-of-credit rights, electronic chattel paper, inventory in the possession of third parties;

(T) all securities and commodities accounts containing investment property described in Attachment B;

(U) the statements, certificates, documents, instruments, financing statements, agreements and information set forth in Attachment A and Attachment B;

(V) a certified copy of the organization chart of Loan Parties;

5.2. CONDITIONS PRECEDENT TO EACH ADVANCE. No Advance will be required to be made or renewed by IBM Credit under this Agreement unless, on and as of the date of such Advance, the following statements shall be true to the satisfaction of IBM Credit:

(A) The representations and warranties contained in this Agreement or in any Other Document are true and correct in all material respects on and as of the date of such Advance as though made on and as of such date (except for any representations or warranties which are made as of any specified date which shall be true and correct in all material respects as of such specified date);

(B) No event has occurred and is continuing or after giving effect to such Advance or the application of the proceeds thereof would result in or would constitute a Default;

(C) No event has occurred and is continuing which could reasonably be expected to have a Material Adverse Effect; and

(D) Both before and after giving effect to the making of such Advance, no Shortfall Amount exists.

Except as Borrower has otherwise disclosed to IBM Credit in writing prior to each request, each request (or deemed request pursuant to Section 2.2 (A)) for an Advance hereunder and the receipt (or deemed receipt) by the Borrower of the proceeds of any Advance hereunder shall be deemed to be a representation and warranty by Borrower and each Loan Party that, as of and on the date of such Advance, the statements set forth in (A) through (D) above are true statements. No such disclosures by Borrower to IBM Credit shall in any manner be deemed to satisfy the conditions precedent to each Advance that are set forth in this Section 5.2.

SECTION 6. REPRESENTATIONS AND WARRANTIES

To induce IBM Credit to enter into this Agreement, each Loan Party as to itself and its Subsidiaries represents and warrants to IBM Credit as follows:

6.1. ORGANIZATION AND QUALIFICATIONS. The first paragraph of this Agreement states the exact name of the Borrower, PFS, Holdings and each other Guarantor who executes a collateralized guaranty as set forth in its charter or other organizational record. In addition, Borrower's, PFS's and Holding's (and each other Guarantor who executes a collateralized guaranty) organizational identification number assigned by its State of organization is as set forth in Attachment B. Each Loan Party and each of their Subsidiaries (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has the power and authority to own its properties and assets and to transact the businesses in which it presently is engaged and (iii) is duly qualified and is authorized to do business and is in good standing in each jurisdiction where it presently is engaged in business and is required to be so qualified. PFSweb directly owns one hundred percent (100%) of the capital stock of PFS. Each of PFS and IFP directly owns Forty-nine Percent (49%) and Fifty-one Percent (51%), respectively, of the membership interests of Holdings and Holdings directly owns One Hundred Percent (100%) of the capital stock of Borrower.

6.2. RIGHTS IN COLLATERAL; PRIORITY OF LIENS. Each of the Borrower and Guarantors (other than PFSweb) owns the property granted by it respectively as Collateral and Other Collateral to IBM Credit, free and clear of any and all Liens in favor of third parties except for the Liens otherwise permitted pursuant to Section 8.1. The Liens granted by each such Loan Party pursuant to this Agreement, the Guaranties and the Other Documents in the Collateral and Other Collateral constitute the valid and enforceable first, prior and perfected Liens on the Collateral and Other Collateral, except to the extent any Liens that are prior to IBM Credit's Liens are (i) the subject of an intercreditor agreement (including the Congress Intercreditor Agreement) or (ii) Purchase Money Security Interests in product of a brand that is not financed by IBM Credit.

6.3. NO CONFLICTS. The execution, delivery and performance by each Loan Party of this Agreement and each of the Other Documents (i) are within its power under its organizational documents; (ii) are duly authorized by all necessary corporate or limited liability company actions; (iii) are not in contravention in any respect of any Requirement of Law or any indenture, contract, lease, agreement, instrument or other commitment to which it is a party or by which it or any of its properties are bound; (iv) do not require the consent, registration or approval of any Governmental Authority or any other Person (except such as have been duly obtained, made or given, and are in full force and effect); and (v) will not, except as contemplated herein, result in the imposition of any Liens upon any of its properties.

6.4. ENFORCEABILITY. This Agreement and all of the other documents executed and delivered by the each Loan Party in connection herewith are the legal, valid and binding obligations of each Loan Party, and are enforceable in accordance with their terms, except as such enforceability may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar laws affecting creditors' rights generally or the general equitable principles relating thereto. In addition, the accounts payable arising from the sale of product from IBM to Borrower are legal, valid, binding obligations of Borrower.

6.5. LOCATIONS OF OFFICES, RECORDS AND INVENTORY. The addresses of the principal place of business and chief executive office of each Loan Party (other than IFP) is as set forth on Attachment B or on any written notice provided by any Loan Party to IBM Credit pursuant to Section 7.7(C) of this Agreement. The books and records of each Loan Party (other than IFP), and all of its chattel paper (other than the chattel paper delivered to IBM Credit pursuant to Section 7.14(E)), are maintained exclusively at the locations set forth on Attachment B or on any written notice provided by any Loan Party to IBM Credit pursuant to Section 7.7(C) of this Agreement .

There is no jurisdiction in which the Borrower or any Guarantor (other than PFSweb) has any assets, equipment or inventory (except for vehicles and inventory in transit for processing) other than those jurisdictions identified on Attachment B or on any notice provided by any Loan Party to IBM Credit pursuant to Section 7.7(C) of this Agreement. Attachment B, as amended from time to time by any notice provided by any Loan Party to IBM Credit in accordance with Section 7.7(C) of this Agreement, also contains a complete list of the legal names and addresses of each warehouse at which Borrower's inventory is stored. None of the receipts received by any Loan Party in respect of the Collateral from any warehouseman states that the goods covered thereby are to be delivered to bearer or to the order of a named person or to a named person and such named person's assigns. PFS maintains the inventory and equipment included within the Collateral segregated from other property of PFS and from property of other clients of PFS and clearly identified as property of Borrower. PFS has not issued any warehouse receipts or other documents covering the Collateral.

6.6. FICTITIOUS BUSINESS NAMES. Neither the Borrower nor any Guarantor (other than PFSweb) has used any company or fictitious name during the five (5) years preceding the date of this Agreement, other than those listed on Attachment B. Supplies Distributors was a registered D.B.A. of the Borrower when the Borrower's legal name was BSD Acquisition Corp.

6.7. ORGANIZATION. If any Borrower or Guarantor or any of their Subsidiaries is a corporation, all of the outstanding capital stock of such Loan Party or any of its Subsidiaries has been validly issued, is fully paid and nonassessable.

6.8. NO JUDGMENTS OR LITIGATION. Except as set forth on Attachment B, no judgments, orders, writs or decrees are outstanding against the Borrower or any Guarantor nor is there now pending or, to the best of such Loan Party's knowledge after due inquiry, threatened, any litigation, contested claim, investigation, arbitration, or governmental proceeding by or against any such Loan Party.

6.9. NO DEFAULTS. None of the Borrower or any Guarantor is in default under any term of any indenture, contract, lease, agreement, instrument or other commitment to which it is a party or by which it, or any of its properties are bound, which default could reasonably be expected to have a Material Adverse Effect. None of the Borrower or any Guarantor has any knowledge of any dispute regarding any such

indenture, contract, lease, agreement, instrument or other commitment. No Default or Event of Default has occurred and is continuing.

6.10. LABOR MATTERS. Except as set forth on any notice provided by the Borrower or any Guarantor to IBM Credit pursuant to Section 7.1(L) of this Agreement, no such Loan Party is a party to any labor dispute. There are no strikes or walkouts or labor controversies pending or threatened against the Borrower or any Guarantor which could reasonably be expected to have a Material Adverse Effect.

6.11. COMPLIANCE WITH LAW. No Loan Party has violated or failed to comply with any Requirement of Law or any requirement of any self regulatory organization, which violation or failure could reasonably be expected to have a Material Adverse Effect.

6.12. ERISA. Each "employee benefit plan", "employee pension benefit plan", "defined benefit plan", or "multi-employer benefit plan", which the Borrower or any Guarantor has established, maintained, or to which it is required to contribute (collectively, the "Plans") is in compliance with all applicable provisions of ERISA and the Code and the rules and regulations thereunder as well as the Plan's terms and conditions. There have been no "prohibited transactions" and no "reportable event" has occurred within the last 60 months with respect to any Plan. None of the Borrower or any Guarantor is a party to any "multi-employer benefit plan".

As used in this Agreement the terms "employee benefit plan", "employee pension benefit plan", "defined benefit plan", and "multi-employer benefit plan" have the respective meanings assigned to them in Section 3 of ERISA and any applicable rules and regulations thereunder. None of the Borrower or any Guarantor has incurred any "accumulated funding deficiency" within the meaning of ERISA or incurred any liability to the Pension Benefit Guaranty Corporation (the "PBGC") in connection with a Plan (other than for premiums due in the ordinary course).

6.13. COMPLIANCE WITH ENVIRONMENTAL LAWS. Except as otherwise disclosed in Attachment B:

(A) Each of the Borrower and Guarantors has obtained all government approvals required with respect to the operation of their businesses under any Environmental Law.

(B) (i) None of the Borrower or Guarantors has generated, transported or disposed of any Hazardous Substances; (ii) None of the Borrower or Guarantors is currently generating, transporting or disposing of any Hazardous Substances; (iii) None of the Borrower or Guarantors has any knowledge that (a) any of its real property (whether owned, leased, or otherwise directly or indirectly controlled) has been used for the disposal of or has been contaminated by any Hazardous Substances, or (b) any of its business operations have contaminated lands or waters of others with any Hazardous Substances; (iv) None of the Borrower or any Guarantor and its respective assets are subject to any Environmental Liability and, to the best of their knowledge, any threatened Environmental Liability; (v) None of the Borrower or any Guarantor has received any notice of or otherwise learned of any governmental investigation evaluating whether any remedial action is necessary to respond to a release or threatened release of any Hazardous Substances for which they may be liable; (vi) None of the Borrower or any Guarantor is in violation of any Environmental Law; (vii) there are no proceedings or investigations pending against any such Loan Party with respect to any violation or alleged violation of any Environmental Law; provided however, that the parties acknowledge that any generation, transportation, use, storage and disposal of certain such Hazardous Substances in any such Loan Party's or its Subsidiaries' business shall be excluded from representations (i) and (ii) above, provided, further, that each such Loan Party is at all times generating, transporting, utilizing, storing and disposing such Hazardous Substances in accordance with all applicable Environmental Laws and in a manner designed to minimize the risk of any spill, contamination, release or discharge of Hazardous Substances other than as authorized by Environmental Laws.

6.14. INTELLECTUAL PROPERTY. Each of the Borrower and each Guarantor (other than PFSweb) possesses such assets, licenses, Patents, patent applications, Copyrights, service marks, Trademarks, trade names and trade secrets and all rights, priorities and privileges and other property relating thereto or

arising therefrom ("Intellectual Property") as are necessary or advisable to continue to conduct its present and proposed business activities. No material claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does Borrower or any such Guarantor know of any valid basis for any such claim. All Intellectual Property is valid, subsisting, unexpired and enforceable, and the use of Intellectual Property by Borrower and each Guarantor (other than PFSweb) and each of their Subsidiaries does not infringe on the rights of any Person in any material respect.

6.15. LICENSES AND PERMITS. Each Loan Party has obtained and holds in full force and effect all franchises, licenses, leases, permits, certificates, authorizations, qualifications, easements, rights of way and other rights and approvals which are necessary for the operation of its businesses as presently conducted, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect. None of the Borrower or any Guarantor is in violation of the terms of any such franchise, license, lease, permit, certificate, authorization, qualification, easement, right of way, right or approval.

6.16. INVESTMENT COMPANY. No Loan Party is (i) an investment company or a company controlled by an investment company within the meaning of the Investment Company Act of 1940, as amended, (ii) a holding company or a subsidiary of a holding company, or an Affiliate of a holding company or of a subsidiary of a holding company, within the meaning of the Public Utility Holdings Company Act of 1935, as amended, or (iii) subject to any other law which purports to regulate or restrict its ability to borrow money or to consummate the transactions contemplated by this Agreement or the Other Documents or to perform its obligations hereunder or thereunder.

6.17. TAXES AND TAX RETURNS. Each Loan Party has timely filed all federal, state, and local tax returns and other reports which it is required by law to file, and has either duly paid all taxes, fees and other governmental charges indicated to be due on the basis of such reports and returns or pursuant to any assessment received by each Loan Party, or made provision for the payment thereof in accordance with GAAP. The charges and reserves on the books of each Loan Party in respect of taxes or other governmental charges are in accordance with GAAP. No tax liens have been filed against any Loan Party or any of its property.

6.18. STATUS OF COLLATERAL. PFS acknowledges that it does not have title to any of the Collateral, including inventory and Products owned by Borrower, or any lien on the Collateral (including the Products) and has not pledged, encumbered or granted any security interest in the Collateral (including the Products). PFS acknowledges and agrees that in performing its services under the PFS Agreement and IBM Agreement, PFS has not acquired title to any of the Products acquired by Borrower.

6.19. AFFILIATE/SUBSIDIARY TRANSACTIONS. No Loan Party is a party to or bound by any agreement or arrangement (whether oral or written) to which any Affiliate or Subsidiary of such Loan Party is a party except (i) in the ordinary course of and pursuant to the reasonable requirements of such Loan Party's business and (ii) upon fair and reasonable terms no less favorable to such Loan Party than it could obtain in a comparable arm's-length transaction with an unaffiliated Person. Except as disclosed to IBM Credit by Borrower in writing from time to time after the Closing Date, Attachment B sets forth with respect to each Subsidiary of Borrower and Holdings (i) its name; (ii) if a registered organization, the State of its formation; (iii) if a non-registered organization, the State of its principal place of business and chief executive offices; (iv) if a proprietorship, proprietor's principal place of residence; and as to each Subsidiary the percentage of ownership by Borrower or Holdings, as appropriate.

6.20. ACCURACY AND COMPLETENESS OF INFORMATION. All factual information furnished by or on behalf of any Loan Party to IBM Credit or the Auditors for purposes of or in connection with this Agreement or any Other Document, or any transaction contemplated hereby or thereby is or will be true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any material fact necessary to make such information not misleading at such time.

6.21. RECORDING TAXES. All recording taxes, recording fees, filing fees and

other charges payable in connection with the filing and recording of this Agreement have either been paid in full by Loan Parties

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or arrangements for the payment of such amounts by Loan Parties have been made to the satisfaction of IBM Credit.

6.22. INDEBTEDNESS. Neither Borrower nor Holdings (i) has any Indebtedness, other than Permitted Indebtedness; and (ii) has guaranteed the obligations of any other Person (except for Permitted Indebtedness or as permitted by Section 8.5).

6.23 NOT CONSUMER TRANSACTION. None of the Advances are consumer-goods transactions or consumer transactions and none of the Collateral constitutes consumer goods (as defined in the UCC).

SECTION 7. AFFIRMATIVE COVENANTS

Until termination of this Agreement and the indefeasible payment and satisfaction of all Obligations:

7.1. FINANCIAL AND OTHER INFORMATION.

(A) Borrower and Holdings shall deliver as soon as available and in any event within ninety (90) days after the end of each fiscal year of Holdings (i) audited Financial Statements of Holdings (provided that, to the extent not otherwise audited by the Auditors, the consolidating Financial Statements may be unaudited) as of the close of the fiscal year and for the fiscal year, together with a comparison to the Financial Statements for the prior year, in each case accompanied by (a) either an opinion of the Auditors without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit or, if so qualified, an opinion which shall be in scope and substance reasonably satisfactory to IBM Credit, (b) such Auditors' "Management Letter" to Holdings, if any, (c) a written statement signed by the Auditors stating that in the course of the regular audit of the business of Holdings and its consolidated Subsidiaries, which audit was conducted by the Auditors in accordance with generally accepted auditing standards, nothing has come to the attention of the Auditors that has caused them to believe that Holdings has failed to comply with the financial covenants set forth in Attachment A insofar as they relate to accounting matters, it being understood that such audit was not directed primarily toward obtaining knowledge of such non-compliance and such Auditors shall have no liability, directly or indirectly, to anyone for failure to obtain such knowledge; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-1 hereto, of the calculations used in determining, as of the end of such fiscal year, whether Holdings and Borrower are in compliance with the financial covenants set forth in Attachment A;

(B) PFSweb shall deliver as soon as available and in any event within ninety (90) days after the end of each fiscal year of PFSweb (i) the Form 10-K Annual Report filed with the Securities and Exchange Commission for that fiscal year just ended and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-2 hereto, of the calculations used in determining, as of the end of such fiscal year, whether PFSweb is in compliance with the financial covenants set forth in Attachment A (in the event PFSweb is no longer a public company, PFSweb shall be required to deliver Financial Statements and such other documentation as required by Holdings and Borrower in (A) above);

(C) Borrower and Holdings shall deliver as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of Holdings (i) consolidating Financial Statements of Holdings and Borrower as of the end of such period and for the fiscal year to date, together with a comparison to the Financial Statements for the same periods in the prior year, all in reasonable detail and duly certified (subject to normal year-end audit adjustments and except for the absence of footnotes) by the chief executive officer, chief financial officer, or Controller of Holdings and Borrower as having been prepared in accordance with GAAP (except for the absence of all required footnotes); and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-1 hereto, of the calculations used in determining, as of the end of such fiscal quarter, whether each of Holdings and Borrower are in compliance with the financial covenants set forth in Attachment A;

(D) PFSweb shall deliver as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of PFSweb (i) the Form 10-Q Quarterly Report filed with the Securities

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and Exchange Commission for that quarter just ended and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-2 hereto, of the calculations used in determining, as of the end of such fiscal quarter, whether PFSweb is in compliance with the financial covenants set forth in Attachment A (in the event PFSweb is no longer a public company, PFSweb shall be required to deliver Financial Statements and such other documentation as required by Holdings and Borrower in (C) above);

(E) Holdings, Borrower and PFSweb (as applicable) shall deliver as soon as available and in any event within thirty-five (35) days after the end of each fiscal month of Holdings, Borrower and PFSweb (i) consolidating Financial Statements of Holdings and consolidated Financial Statements of PFSweb as of the end of such period and for the fiscal year to date, together with a comparison to the Financial Statements for the same periods in the prior year, all in reasonable detail and duly certified (subject to normal year-end audit adjustments and except for the absence of footnotes) by the chief executive officer or chief financial officer of such Loan Party as having been prepared in accordance with GAAP; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-1 and C-2 hereto, of the calculations used in determining, as of the end of such fiscal month, whether Holdings, the Borrower and PFSweb are in compliance with the financial covenants set forth in Attachment A;

(F) Holdings shall deliver as soon as available and in any event within sixty (60) days after the end of each fiscal year of Holdings (i) projected Financial Statements, broken down by quarter, for the current and following fiscal year; and (ii) if composed, a narrative discussion relating to such projected Financial Statements;

(G) Holdings shall deliver if requested by IBM Credit, as soon as available and in any event within thirty (30) days after the end of each fiscal quarter of Holdings, revised projected Financial Statements, broken down by quarter, for (i) the current fiscal year from the beginning of such fiscal quarter to the fiscal year end and (ii) the following fiscal year;

(H) Each Loan Party shall deliver as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of each Loan Party quarterly compliance certificates of such Loan Party and all of its affiliates evidencing compliance under any credit agreements to which they are a party;

(I) Each Loan Party shall deliver promptly after any Loan Party obtains knowledge of (i) the occurrence of a Default or Event of Default, or (ii) the existence of any condition or event which would result in any such Loan Party's failure to satisfy the conditions precedent to Advances set forth in Section 5, a certificate of the chief executive officer or chief financial officer or other Authorized Officer of such Loan Party specifying the nature thereof and such Loan Party's proposed response thereto, each in reasonable detail;

(J) Each Loan Party shall deliver promptly after any such Loan Party obtains knowledge of (i) any proceeding(s) being instituted or threatened to be instituted by or against the Borrower or any Guarantor in any federal, state, local or foreign court or before any commission or other regulatory body (federal, state, local or foreign), or (ii) any actual or prospective change, development or event which, in any such case, has had or could reasonably be expected to have a Material Adverse Effect, a certificate of the chief executive officer or chief financial officer or other Authorized Officer of such Loan Party specifying the nature thereof and such Loan Party's proposed response thereto, each in reasonable detail;

(K) Each Loan Party shall deliver promptly after any such Loan Party obtains knowledge that (i) any order, judgment or decree in excess of \$1,000,000 shall have been entered against the Borrower or any Guarantor or any of its properties or assets, or (ii) it has received any notification of a material violation of any Requirement of Law from any Governmental Authority, a certificate of the chief executive officer or chief financial officer or other

Authorized Officer of such Loan Party specifying the nature thereof and such Loan Party's proposed response thereto, each in reasonable detail;

(L) Each Loan Party shall deliver promptly after any such Loan Party learns of any material labor dispute to which the Borrower or any Guarantor may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any such Loan Party

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is a party or by which it is bound, a certificate of the chief executive officer or chief financial officer or other Authorized Officer of such Loan Party specifying the nature thereof and such Loan Party's proposed response thereto, each in reasonable detail;

(M) Each Loan Party shall deliver within five (5) Business Days after request by IBM Credit, any written certificates, schedules and reports together with all supporting documents as IBM Credit may reasonably request relating to the Collateral or the Borrower or any Guarantor or any Guarantor's business affairs and financial condition;

(N) Borrower shall deliver prior to 5:00 p.m. (Pacific Standard Time) on Tuesday of each week (or if such Tuesday is not a Business Day, the first Business Day following such Tuesday), or as otherwise agreed in writing, a Collateral Management Report as of the immediately preceding Friday (or if such Friday is not a Business Day, as of the last Business Day of such preceding week);

(O) Borrower shall deliver by the tenth (10th) Business Day of each month, or as otherwise agreed in writing, a Collateral Management Report as of a date no earlier than the last day of the immediately preceding month;

(P) as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter (including the last fiscal quarter) of Borrower and Holdings, quarterly Compliance Certificates of Borrower and Holdings evidencing compliance under the Congress Credit Agreement and (ii) as soon as available and in any event within ninety (90) days of the last fiscal quarter, a Compliance Certificate of Borrower and Holdings evidencing compliance under the Congress Credit Agreement (based on audited financial statements); and

(Q) PFSweb shall deliver within five (5) days after the same are sent, copies of all Financial Statements and reports which PFSweb sends to its stockholders, and within five (5) days after the same are filed, copies of all Financial Statements and reports which PFSweb may make to, or file with, the Securities and Exchange Commission or any successor or analogous governmental authority.

Each certificate, schedule and report provided by any Loan Party to IBM Credit shall be signed by an Authorized Officer of such Loan Party, and which signature shall be deemed a representation and warranty that the information contained in such certificate, schedule or report is true and accurate in all material respects on the date as of which such certificate, schedule or report is made and does not omit to state a material fact necessary in order to make the statements contained therein not misleading at such time. Each Financial Statement delivered pursuant to this Section 7.1 shall be prepared in accordance with GAAP (except as otherwise permitted hereunder) applied consistently throughout the periods reflected therein and with prior periods. Holdings shall cause the audited Financial Statements and accompanying documents set forth in Section 7.1(A)(i) to be delivered directly by the Auditors to IBM Credit only via first class mail or overnight delivery.

7.2. LOCATION OF BORROWER AND COLLATERAL. If it is a registered organization, the organizational document creating Borrower, Holdings and each other Guarantor has been filed in the appropriate office of the State referred to in the first paragraph of this Agreement. The inventory, equipment and other tangible Collateral or other Collateral shall be kept or sold at the addresses as set forth on Attachment B or on any notice provided by any Loan Party to IBM Credit in accordance with Section 7.7(C). Such locations shall be certified quarterly to IBM Credit substantially in the form of Attachment G.

7.3. CHANGES IN LOAN PARTIES. Each Loan Party shall provide thirty (30) days prior written notice to IBM Credit of any change in such Loan Party's name,

chief executive office and principal place of business, organization, state of organization, form of ownership or structure; provided, however, that such Loan Party's compliance with this covenant shall not relieve it of any of its other obligations or any other provisions under this Agreement or any Other Document limiting actions of the type described in this Section.

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7.4. LEGAL ENTITY EXISTENCE. Each Loan Party shall (A) maintain its legal entity existence, maintain in full force and effect all licenses, bonds, franchises, leases and qualifications to do business, and all contracts and other rights necessary to the profitable conduct of its business, (B) continue in, and limit its operations to, the same general lines of business as presently conducted by it unless otherwise permitted in writing by IBM Credit and (C) comply with all Requirements of Law, except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

7.5. ERISA. Each of the Borrower and Guarantors shall promptly notify IBM Credit in writing after it learns of the occurrence of any event which would constitute a "reportable event" under ERISA or any regulations thereunder with respect to any Plan, or that the PBGC has instituted or will institute proceedings to terminate any Plan. Notwithstanding the foregoing, none of the Borrower or any Guarantor shall have any obligation to notify IBM Credit as to any "reportable event" as to which the 30-day notice requirement of Section 4043(b) has been waived by the PBGC, until such time as such Loan Party is required to notify the PBGC of such reportable event.

Such notification shall include a certificate of the chief financial officer of such Loan Party setting forth details as to such "reportable event" and the action which such Loan Party proposes to take with respect thereto, together with a copy of any notice of such "reportable event" which may be required to be filed with the PBGC, or any notice delivered by the PBGC evidencing its intent to institute such proceedings. Upon request of IBM Credit, each of the Borrower and Guarantors shall furnish, or cause the plan administrator to furnish, to IBM Credit the most recently filed annual report for each Plan.

7.6. ENVIRONMENTAL MATTERS. (A) Each of the Borrower and Guarantors and any other Person under such Loan Party's control (including, without limitation, agents and Affiliates under such control) shall (i) comply with all Environmental Laws in all material respects, and (ii) undertake to use commercially reasonable efforts to prevent any unlawful release of any Hazardous Substance by such Loan Party or such Person into, upon, over or under any property now or hereinafter owned, leased or otherwise controlled (directly or indirectly) by such Loan Party.

(B) Each of the Borrower and Guarantors shall notify IBM Credit, promptly upon its obtaining knowledge of (i) any non-routine proceeding or investigation by any Governmental Authority with respect to the presence of any Hazardous Substances on or in any property now or hereinafter owned, leased or otherwise controlled (directly or indirectly) by such Loan Party, (ii) all claims made or threatened by any Person or Governmental Authority against such Loan Party or any of such Loan Party's assets relating to any loss or injury resulting from any Hazardous Substance, (iii) such Loan Party's discovery of evidence of unlawful disposal of or environmental contamination by any Hazardous Substance on any property now or hereinafter owned, leased or otherwise controlled (directly or indirectly) by such Loan Party, and (iv) any occurrence or condition which could constitute a violation of any Environmental Law.

7.7. COLLATERAL BOOKS AND RECORDS/COLLATERAL AUDIT. (A) Each of the Borrower and Guarantors (other than PFSweb) agrees to maintain its books and records, pertaining to the Collateral and Other Collateral in such detail, form and scope as is consistent with good business practice, and agrees that such books and records will reflect IBM Credit's interest in the accounts of the Borrower and accounts of the Guarantors (other than PFSweb). PFS further agrees that the books and records pertaining to the Collateral shall be kept separately from PFS's other books and records and PFS agrees to note on the books and records pertaining to the Collateral that such books and records are the property of Borrower.

(B) Each of the Borrower and Guarantors (other than PFSweb) agrees that IBM Credit or its agents may enter upon the premises of any such Loan Party at any time and from time to time, during normal business hours and upon reasonable notice under the circumstances, and at any time at all on and after the

occurrence and during the continuance of an Event of Default for the purposes of (i) inspecting the Collateral and Other Collateral, (ii) inspecting and/or copying (at Borrower's or Guarantor's expense) any and all records pertaining thereto, (iii) discussing the affairs, finances and business of each such Loan Party with any officers, employees and directors of such Loan Party or with the Auditors and (iv) verifying the Collateral and Other Collateral. Upon reasonable prior notice, each such Loan Party also agrees to provide IBM Credit with such reasonable information and documentation that IBM Credit deems necessary

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to conduct the foregoing activities, including, without limitation, reasonably requested samplings of purchase orders, invoices and evidences of delivery or other performance.

Upon the occurrence and during the continuance of an Event of Default which has not been waived by IBM Credit in writing, IBM Credit may conduct any of the foregoing activities in any manner that IBM Credit deems reasonably necessary.

(C) Borrower and each Guarantor shall give IBM Credit thirty (30) days prior written notice of any change in the location of any Collateral or Other Collateral, the location of its books and records or in the location of its chief executive office or place of business from the locations specified in Attachment B, and will execute in advance of such change and cause to be filed and/or delivered to IBM Credit any financing statements, landlord or other lien waivers, or other documents reasonably required by IBM Credit, all in form and substance reasonably satisfactory to IBM Credit.

(D) Borrower and PFS, on behalf of the Borrower and each Guarantor (other than PFSweb), agrees to advise IBM Credit promptly, in reasonably sufficient detail, of any event or substantial change in the Collateral or Other Collateral which could reasonably be expected to have a Material Adverse Effect on the Collateral or on the security interests granted to IBM Credit therein.

7.8. INSURANCE; CASUALTY LOSS. (A) Each Loan Party agrees to maintain with financially sound and reputable insurance companies: (i) insurance on its properties, (ii) public liability insurance against claims for personal injury or death as a result of the use of any products sold by it and (iii) insurance coverage against other business risks, in each case, in at least such amounts and against at least such risks as are usually and prudently insured against in the same general geographical area by companies of established repute engaged in the same or a similar business. Each Loan Party will furnish to IBM Credit, upon its written request, the insurance certificates with respect to such insurance. In addition, all Policies so maintained are to name IBM Credit as an additional insured as its interest may appear.

(B) Without limiting the generality of the foregoing, Borrower shall keep and maintain, at its sole expense, the Collateral insured for an amount not less than the amount set forth on Attachment A from time to time opposite the caption "Collateral Insurance Amount" against all loss or damage under an "all risk" Policy with companies mutually acceptable to IBM Credit and Borrower, with a lender's loss payable endorsement or mortgagee clause in form and substance reasonably satisfactory to IBM Credit designating that any loss payable thereunder with respect to such Collateral shall be payable to IBM Credit, as its interest may appear. Upon receipt of proceeds by IBM Credit the same shall be applied on account of the Borrower's Outstanding Product Advance first, then to the Outstanding PRO Advances. Borrower agrees to instruct each insurer to give IBM Credit, by endorsement upon the Policy issued by it or by independent instruments furnished to IBM Credit, at least ten (10) days written notice before any Policy shall be altered or cancelled and that no act or default of any Loan Party or any other person shall affect the right of IBM Credit to recover under the Policies. Borrower hereby agrees to direct all insurers under the Policies to pay all proceeds with respect to the Collateral directly to IBM Credit to be applied as set forth herein.

If any Borrower fails to pay any cost, charges or premiums, or if Borrower fails to insure the Collateral, IBM Credit may pay such costs, charges or premiums. Any amounts paid by IBM Credit hereunder shall be considered an additional debt owed by Borrower to IBM Credit and are due and payable immediately upon receipt of an invoice by IBM Credit.

7.9. TAXES. Each of the Borrower and Guarantors agrees to pay, when due, all taxes lawfully levied or assessed against such Loan Party or any of the

Collateral before any penalty or interest accrues thereon unless such taxes are being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted and an adequate reserve or other appropriate provisions have been made therefor as required in order to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect.

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7.10. COMPLIANCE WITH LAWS. Each Loan Party agrees to comply with all Requirements of Law applicable to the Collateral or any part thereof, or to the operation of its business.

7.11. FISCAL YEAR. Each of Holdings, Borrower and PFSweb agrees to maintain its fiscal year as a year ending December 31 unless either Holdings, Borrower or PFSweb provides IBM Credit at least thirty (30) days prior written notice of any change thereof.

7.12. INTELLECTUAL PROPERTY. Each of the Borrower and Guarantors shall do and cause to be done all things necessary to preserve and keep in full force and effect all registrations of Intellectual Property which the failure to do or cause to be done could reasonably be expected to have a Material Adverse Effect.

7.13. MAINTENANCE OF PROPERTY. Each Loan Party shall maintain all of its material properties (business and otherwise) in good condition and repair (ordinary wear and tear excepted) and pay and discharge all costs of repair and maintenance thereof and all rental and mortgage payments and related charges pertaining thereto and not commit or permit any waste with respect to any of its material properties. PFS, on behalf of Borrower, shall maintain all of Borrower's material properties in PFS's possession (business and otherwise) in good condition in accordance with good business practice.

7.14. COLLATERAL. To the extent applicable to it, each Loan Party will:

(A) stamp or otherwise mark chattel paper and instruments now owned or hereafter acquired by the Borrower or any Guarantor in conspicuous type to show that the same are subject to IBM Credit's security interest and immediately thereafter deliver or cause such chattel paper and instruments to be delivered to IBM Credit or any agent designated by IBM Credit with appropriate endorsements and assignments to vest title and possession in IBM Credit;

(B) promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral or Other Collateral in an amount in excess of Two Million Five Hundred Thousand Dollars (\$2,500,000). Each Borrower and each Guarantor shall diligently file and prosecute its claim for any award or payment in connection with any such loss, theft, destruction of or damage to Collateral. Each such Loan Party shall, upon demand of IBM Credit, make, execute and deliver any assignments and other instruments sufficient for the purpose of assigning any such award or payment for inventory collateral to IBM Credit, free of any encumbrances of any kind whatsoever;

(C) consistent with reasonable commercial practice, observe and perform all matters and things necessary or expedient to be observed or performed under or by virtue of any lease, license, concession or franchise forming part of the Collateral and Other Collateral in order to preserve, protect and maintain all the rights of IBM Credit thereunder;

(D) promptly notify IBM Credit if Borrower is a beneficiary under a letter of credit now or hereafter issued in favor of Borrower;

(E) consistent with reasonable commercial practice, maintain, use and operate the Collateral and Other Collateral and carry on and conduct its business in a proper and efficient manner so as to preserve and protect the Collateral and Other Collateral and the earnings, incomes, rents, issues and profits thereof; and

(F) at any time and from time to time, upon the request of IBM Credit, and at the sole expense of Loan Parties, each Loan Party will promptly and duly execute and deliver such further instruments and documents and take such further action as IBM Credit may reasonably request for the purpose of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the Uniform Commercial Code in effect in any

jurisdiction with respect to the security interests granted herein and the payment of any and all recording taxes and filing fees in connection therewith.

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7.15 ADDITIONAL COLLATERAL, ETC. If Borrower shall at any time hold or acquire a Commercial Tort Claim, then Borrower shall immediately notify IBM Credit in writing signed by Borrower of the details thereof and grant to IBM Credit in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance satisfactory to IBM Credit.

7.16. SUBSIDIARIES. IBM Credit may require that any Domestic Subsidiaries of any Loan Party, except for direct Subsidiaries of PFS other than Holdings ("Excluded Subsidiaries"), become parties to this Agreement or any other agreement executed in connection with this Agreement as guarantors or sureties. Each Loan Party will comply, and cause all Subsidiaries, other than Excluded Subsidiaries, of such Loan Party to comply with Sections 7 and 8 of this Agreement, as if such sections applied directly to such Subsidiaries. Each of Borrower and Holdings hereby agrees that, promptly after it acquires any Subsidiary after the Closing Date, it shall execute a supplement to the Amended and Restated Holdings Stock Pledge Agreement or Amended and Restated Borrower Stock Pledge Agreement (as applicable) for the purpose of pledging to IBM Credit (i) all shares of stock of the Subsidiary owned by Holdings or Borrower (as applicable), if the new Subsidiary is a Domestic Subsidiary or (ii) all shares of stock of the new Subsidiary owned by Holdings or Borrower (as applicable), up to sixty-five percent (65%) of the total outstanding shares of stock of the Subsidiary, if the new Subsidiary is not a Domestic Subsidiary. For the purpose of this Section 7.16, each of Borrower and Holdings agrees to notify the IBM Credit 10 days before it acquires a new Subsidiary.

7.17. FINANCIAL COVENANTS; ADDITIONAL COVENANTS. Each of Borrower, Holdings and PFSweb acknowledges and agrees that such party shall maintain the financial covenants and other covenants set forth in the attachments, exhibits and other addenda incorporated in this Agreement.

7.18. TRANSACTION DOCUMENTS. PFS and Borrower agree to comply with the terms of the Transaction Documents in accordance with the terms set forth therein.

SECTION 8. NEGATIVE COVENANTS

Until termination of this Agreement and the indefeasible payment and satisfaction of all Obligations hereunder:

8.1. LIENS. Neither Borrower nor any Guarantor (other than PFSweb) will, directly or indirectly mortgage, assign, pledge, transfer, create, incur, assume, permit to exist or otherwise permit any Lien or judgment to exist on any of its property, assets, revenues or goods, whether real, personal or mixed, whether now owned or hereafter acquired, except for Permitted Liens and Liens created under collateralized guaranties. PFS shall not pledge, encumber or grant a security interest in the Collateral (including the Products) or acquire title or any security interest to any of the Collateral (including the Products). In performing its services under the PFS Agreement and IBM Agreement, PFS agrees that it shall not acquire title to any of the Products acquired by the Borrower.

8.2. DISPOSITION OF ASSETS. Neither Borrower nor any Guarantor will, directly or indirectly, sell, lease, assign, transfer or otherwise dispose of any assets other than (i) sales of inventory in the ordinary course of business and short term rental of inventory as demonstrations in amounts not material to it, and (ii) voluntary dispositions of individual assets and obsolete or worn out property in the ordinary course of business, provided, that the aggregate book value of all such assets and property so sold or disposed of under this section 8.2 (ii) in any fiscal year shall not exceed 5% of the consolidated assets of such Loan Party as of the beginning of such fiscal year.

8.3 TRANSACTION DOCUMENTS. No Loan Party will (i) modify, amend or agree to any amendment, waiver, supplement or modification of any of the Transaction Documents, the results of which could reasonably be expected to have a Material Adverse Effect or (ii) cancel or terminate or agree to cancel or terminate any of the Transaction Documents without the prior written consent of IBM Credit which will not be unreasonably withheld provided that such cancellation or termination could not reasonably be expected to have a Material Adverse Effect.

8.4. CHANGES IN BORROWER AND GUARANTOR. (A) Neither the Borrower nor any Guarantor will change its name, location (as defined in Article 9 of the UCC), State of organization, chief executive office, or principal place of business without thirty (30) days prior written notice to IBM Credit; (B) Neither the Borrower nor any Guarantor will, without the prior written consent of IBM Credit, change its organization, form of ownership or structure; (C) no Loan Party will, without the prior written consent of IBM Credit, directly or indirectly, merge, consolidate, liquidate, dissolve or enter into or engage in any operation or activity materially different from that presently being conducted by such Loan Party.

8.5. GUARANTIES. Neither the Borrower nor Holdings will, directly or indirectly, assume, guaranty, endorse, or otherwise become liable upon the obligations of any other Person, except (i) by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (ii) by the giving of indemnities in connection with the sale of inventory or other asset dispositions permitted hereunder, (iii) for guaranties in favor of IBM Credit, and (iv) the guaranties referred to in paragraphs 2 and 10 of the definition of Permitted Indebtedness and (v) for obligations which, if incurred directly by any such Loan Party, would be permitted hereunder as Permitted Indebtedness.

8.6. RESTRICTED PAYMENTS. Borrower will not, directly or indirectly make any of the following payments ("Restricted Payments") if after giving effect to such payment, the aggregate amount of all such Restricted Payments exceeds Six Hundred Thousand Dollars (\$600,000) during any fiscal year: (i) declare or pay any dividend (other than dividends payable solely in common stock of Borrower) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Borrower or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations or payments of the revolving loans made by Congress made in the ordinary course administration thereof pursuant to the Congress Credit Agreement)), except as permitted by the Amended and Restated Notes Payable Subordination Agreement.

8.7. INVESTMENTS. Neither the Borrower nor Holdings will, directly or indirectly, make, maintain or acquire any Investment in any Person (other than a Loan Party) other than:

(A) interest bearing deposit accounts (including certificates of deposit) which are insured by the Federal Deposit Insurance Corporation ("FDIC") or a similar federal insurance program;

(B) direct obligations of the government of the United States of America or any agency or instrumentality thereof or obligations guaranteed as to principal and interest by the United States of America or any agency thereof;

(C) stock or obligations issued to any Loan Party in settlement of claims against others by reason of an event of bankruptcy or a composition or the readjustment of debt or a reorganization of any debtor of any Loan Party;

(D) commercial paper of any company organized under the laws of any State of the United States or any bank organized or licensed to conduct a banking business under the laws of the United States or any State thereof having the short-term highest rating then given by Moody's Investor's Services, Inc. or Standard & Poor's Corporation;

(E) the outstanding loan made by the Borrower to Supplies Distributors of Canada, Inc. in amount not to exceed \$5,000,000;

(F) the Guaranty executed by Borrower in favor of Fortis Commercial Finance N.V. guaranteeing the obligations of Supplies Distributors S.A. in an amount not

to exceed 200,000Euros;

(G) the outstanding loan made by the Borrower to Supplies Distributors Europe S.A. in an amount not to exceed \$8,500,000US; and

(H) the outstanding loan made by the Borrower to Supplies Distributors Europe B.V. in an amount not to exceed \$1,500,000US.

8.8. AFFILIATE/SUBSIDIARY TRANSACTIONS. No Loan Party will, directly or indirectly, enter into any transaction with any Affiliate or Subsidiary, including, without limitation, the purchase, sale or exchange of property or the rendering of any service to any Affiliate or Subsidiary of any Loan Party except in the ordinary course of business and pursuant to the reasonable requirements of such Loan Party's business upon fair and reasonable terms no less favorable to such Loan Party than could be obtained in a comparable arm's-length transaction with an unaffiliated Person.

8.9. ERISA. None of the Borrower or any Guarantor will (A) terminate any Plan so as to incur a material liability to the PBGC, (B) permit any "prohibited transaction" involving any Plan (other than a "multi-employer benefit plan") which would subject such Loan Party to a material tax or penalty on "prohibited transactions" under the Code or ERISA, (C) fail to pay to any Plan any contribution which they are obligated to pay under the terms of such Plan, if such failure would result in a material "accumulated funding deficiency", whether or not waived, (D) allow or suffer to exist any occurrence of a "reportable event" or any other event or condition, which presents a material risk of termination by the PBGC of any Plan (other than a "multi-employer benefit plan"), or (E) fail to notify IBM Credit as required in Section 7.5. As used in this Agreement, the terms "accumulated funding deficiency" and "reportable event" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in the Code and ERISA. For purposes of this Section 8.9, the terms "material liability", "tax", "penalty", "accumulated funding deficiency" and "risk of termination" shall mean a liability, tax, penalty, accumulated funding deficiency or risk of termination which could reasonably be expected to have a Material Adverse Effect.

8.10. ADDITIONAL NEGATIVE PLEDGES. No Loan Party will, directly or indirectly, create or otherwise cause or permit to exist or become effective any contractual obligation which may restrict or inhibit IBM Credit's rights or ability to sell or otherwise dispose of the Collateral or Other Collateral or any part thereof after the occurrence and during the continuance of an Event of Default, except for any restrictions set forth in the Congress Credit Agreement.

8.11. STORAGE OF COLLATERAL . (A) Collateral shall not be stored with a bailee, warehouseman or similar party without the prior written consent of IBM Credit unless any Loan Party will, concurrently with the delivery of such Collateral to such party, cause such party to (i) enter into an agreement acknowledging that such party holds possession of Collateral (other than certificated securities and goods covered by a document) for the benefit of IBM Credit, or (ii) issue and deliver to IBM Credit warehouse receipts in the name of IBM Credit evidencing the storage of such Collateral.

(B) PFS shall not permit any of its (or its customers') inventory (other than Borrower) to be commingled with the Collateral. PFS also agrees to keep all goods rejected or returned by any account debtor and all goods repossessed or stopped in transit by PFS (or Borrower, if applicable) for any account debtor segregated from the other property of Borrower or PFS.

8.12. USE OF PROCEEDS. Borrower shall not use any portion of the proceeds of any Advances other than to acquire Products from IBM Credit Authorized Suppliers. Proceeds of Advances may not be used for working capital purposes.

8.13. INDEBTEDNESS. Neither the Borrower nor Holdings will create, incur, assume or permit to exist any Indebtedness, except for Permitted Indebtedness.

8.14. LOANS. No Loan Party will make any loans, advances, contributions or payments of money or goods to any Subsidiary, Affiliate or parent company or to any officer, director or stockholder of such Loan Party or of any such company (except for compensation for personal services actually rendered), except for transactions which comply with the terms of this Agreement.

8.15 TITLE TO COLLATERAL. PFS disclaims and waives any right to assert any lien, pledge or claim of title to the Collateral.

SECTION 9. DEFAULT

9.1. EVENT OF DEFAULT. Any one or more of the following events shall constitute an Event of Default under this Agreement and the Other Documents:

(A) The failure to make timely payment of the Obligations or any part thereof when due and payable;

(B) Any Loan Party fails to comply with the financial covenants set forth on Attachment A, Section 7.4(A), Section 7.4(B) or Section 8 hereof;

(C) Any Loan Party or any of their Affiliates fail to comply with or observe any term, covenant or agreement contained in this Agreement, any Other Documents (not covered by (A) or (B) above) to which it is a party, if such failure shall remain unremedied for five (5) days after the earlier of (i) such Loan Party obtains actual knowledge thereof and (ii) written notice thereof shall have been given to such Loan Party by IBM Credit;

(D) Any representation, warranty, statement, report or certificate made or delivered by or on behalf of any Loan Party or any of its officers, employees or agents or by or on behalf of any Guarantor to IBM Credit was false in any material respect at the time when made or deemed made;

(E) The occurrence of any event or circumstance which could reasonably be expected to have a Material Adverse Effect;

(F) The Borrower or any Guarantor shall generally not pay its debts as such debts become due, become or otherwise declare itself insolvent, file a voluntary petition for bankruptcy protection, have filed against it any involuntary bankruptcy petition, cease to do business as a going concern, make any assignment for the benefit of creditors, or a custodian, receiver, trustee, liquidator, administrator or person with similar powers shall be appointed for any such Loan Party or any Guarantor or any of its respective properties or have any of its respective properties seized or attached, or take any action to authorize, or for the purpose of effectuating, the foregoing, provided, however, that any such Loan Party or any Guarantor shall have a period of forty-five (45) days within which to discharge any involuntary petition for bankruptcy or similar proceeding;

(G) The use of any funds borrowed from IBM Credit under this Agreement for any purpose other than as provided in this Agreement;

(H) The entry of any judgment against the Borrower or any Guarantor in an amount in excess of \$5,000,000 and such judgment is not satisfied, dismissed, stayed or superseded by bond within thirty (30) days after the day of entry thereof (and in the event of a stay or supersedeas bond, such judgment is not discharged within thirty (30) days after termination of any such stay or bond) or such judgment is not fully covered by insurance as to which the insurance company has acknowledged its obligation to pay such judgment in full;

(I) The dissolution or liquidation of any Loan Party, or any Guarantor, or any Loan Party or any Guarantor or its directors or stockholders shall take any action to dissolve or liquidate any Loan Party or any Guarantor;

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(J) Any "going concern" or like qualification or exception, or qualification arising out of the scope of an audit by an Auditor of its opinion relative to any Financial Statement delivered to IBM Credit under this Agreement;

(K) The issuance of a warrant of distress for any rent or taxes with respect to any premises occupied by any Loan Party in or upon which the Collateral, or any part thereof, may at any time be situated and such warrant shall continue for a period of ten (10) Business Days from the date such warrant is issued and shall not be rescinded, revoked or otherwise terminated within such ten (10) day period;

(L) Any Loan Party or any Guarantor suspends business;

(M) The occurrence of any event or condition that permits the holder of any Indebtedness of any Loan Party, Guarantor, or any Loan Party's Subsidiary (including Supplies Distributors, S.A. and Business Supplies Distributors Europe B.V.) in a principal amount in excess of \$100,000 arising in one or more related or unrelated transactions to accelerate the maturity thereof or the failure of any Loan Party or any of the foregoing to pay when due any such Indebtedness;

(N) Any guaranty of any or all of Borrower's Obligations executed by any Guarantor in favor of IBM Credit, shall at any time for any reason cease to be in full force and effect or shall be declared to be null and void by a court of competent jurisdiction or the validity or enforceability thereof shall be contested or denied by any such Guarantor, or any such Guarantor shall deny that it has any further liability or obligation thereunder or any such Guarantor shall fail to comply with or observe any of the terms, provisions or conditions contained in any such guaranty;

(O) Any Loan Party is in default under the material terms of any of the Other Documents after the expiration of any applicable cure periods;

(P) There shall occur a "reportable event" with respect to any Plan, or any Plan shall be subject to termination proceedings (whether voluntary or involuntary) and there shall result from such "reportable event" or termination proceedings a liability of any Loan Party to the PBGC which in the reasonable opinion of IBM Credit will have a Material Adverse Effect;

(Q) Any "person" (as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) acquires a beneficial interest in 50% or more of the Voting Stock of any Loan Party;

(R) (a) PFSweb ceases to directly own One Hundred Percent (100%) of the capital stock of PFS, (b) PFS and IFP cease to directly own One Hundred Percent (100%) of the membership interest of Holdings or (c) Holdings ceases to directly own One Hundred Percent (100%) of the capital stock of Borrower;

(S) IBM ceases to be an Authorized Supplier;

(T) Any Transaction Document expires or is terminated;

(U) The Congress Intercreditor Agreement is terminated;

(V) A Default occurs and is continuing under the Congress Credit Agreement; and

(W) Any event or condition that could be reasonably be expected to have a Material Adverse Effect shall have occurred and be continuing.

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9.2. ACCELERATION. Upon the occurrence and during the continuance of an Event of Default which has not been waived in writing by IBM Credit, IBM Credit may, in its sole discretion, take any or all of the following actions, without prejudice to any other rights it may have at law or under this Agreement to enforce its claims against any Loan Party: (a) declare all Obligations to be immediately due and payable (except with respect to any Event of Default set forth in Section 9.1(F) hereof, in which case all Obligations shall automatically become immediately due and payable without the necessity of any notice or other demand) without presentment, demand, protest or any other action or obligation of IBM Credit; and (b) immediately terminate the Credit Line hereunder.

9.3. REMEDIES. (A) Upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, IBM Credit may exercise all rights and remedies of a secured party under the U.C.C. Without limiting the generality of the foregoing, IBM Credit may: (i) remove from any premises where same may be located any and all documents, instruments, files and records (including the copying of any computer records), and any receptacles or cabinets containing same, relating to the Collateral, or IBM Credit may use (at the expense of Loan Parties) such of the supplies or space of such Loan Party at such Loan Party's place of business or otherwise, as may be necessary to properly administer and control the Collateral or the handling of collections and realizations thereon; ; and (ii) foreclose the security interests created pursuant to this Agreement by any available judicial procedure, or to take possession of any or all of the Collateral without judicial process and to enter

any premises where any Collateral may be located for the purpose of taking possession of or removing the same.

(B) Upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, IBM Credit shall have the right to sell, lease, or otherwise dispose of all or any part of the Collateral, whether in its then condition or after further preparation or processing, in the name of any Loan Party or IBM Credit, or in the name of such other party as IBM Credit may designate, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit, with or without warranties or representations, and upon such other terms and conditions as IBM Credit in its sole discretion may deem advisable, and IBM Credit shall have the right to purchase at any such sale.

If IBM Credit, in its sole discretion determines that any of the Collateral requires rebuilding, repairing, maintenance or preparation, IBM Credit shall have the right, at its option, to do such of the aforesaid as it deems necessary for the purpose of putting such Collateral in such saleable form as IBM Credit shall deem appropriate. The Borrower hereby agrees that any disposition by IBM Credit of any Collateral pursuant to and in accordance with the terms of a repurchase agreement between IBM Credit and the manufacturer or any supplier (including any Authorized Supplier) of such Collateral constitutes a commercially reasonable sale. Each Loan Party agrees, at the request of IBM Credit, to assemble the Collateral or Other Collateral and to make it available to IBM Credit at places which IBM Credit shall select, whether at the premises of any Loan Party or elsewhere, and to make available to IBM Credit the premises and facilities of any Loan Party for the purpose of IBM Credit's taking possession of, removing or putting such Collateral or Other Collateral in saleable form. If notice of intended disposition of any Collateral is required by law, it is agreed that ten (10) Business Days notice shall constitute reasonable notification.

(C) Unless expressly prohibited by the licensor thereof, if any, IBM Credit is hereby granted, upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, an irrevocable, non-exclusive license to use, assign, license or sublicense all computer software programs, data bases, processes and materials used by any Loan Party in its businesses or in connection with any of the Collateral.

(D) The net cash proceeds resulting from IBM Credit's exercise of any of the foregoing rights (after deducting all charges, costs and expenses, including reasonable attorneys' fees) shall be applied by IBM Credit to the payment of any Loan Party's Obligations, whether due or to become due, in such order as IBM Credit may in its sole discretion elect. Each Loan Party shall remain liable to IBM Credit for any deficiencies, and IBM Credit in turn agrees to remit to each Loan Party or its successors or assigns, any surplus resulting therefrom.

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(E) The enumeration of the foregoing rights is not intended to be exhaustive and the exercise of any right shall not preclude the exercise of any other rights, all of which shall be cumulative.

9.4. WAIVER. If IBM Credit seeks to take possession of any of the Collateral by any court process, each Loan Party hereby irrevocably waives to the extent permitted by applicable law any bonds, surety and security relating thereto required by any statute, court rule or otherwise as an incident to such possession and any demand for possession of the Collateral prior to the commencement of any suit or action to recover possession thereof. In addition, each Loan Party waives to the extent permitted by applicable law all rights of set-off it may have against IBM Credit. Each Loan Party further waives to the extent permitted by applicable law presentment, demand and protest, and notices of non-payment, non-performance, any right of contribution, dishonor, and any other demands, and notices required by law.

SECTION 10. MISCELLANEOUS

10.1. TERM; TERMINATION. (A) This Agreement shall remain in force until the earlier of (i) the Termination Date, (ii) the date specified in a written notice by Borrower that it intends to terminate this Agreement which date shall be no less than ninety (90) days following the receipt by IBM Credit of such written notice, and (iii) termination by IBM Credit after the occurrence and during the continuance of an Event of Default. Upon the date that this Agreement is

terminated, all of Obligations shall be immediately due and payable in their entirety, even if they are not yet due under their terms.

(B) Until the indefeasible payment in full of all of each Loan Party's Obligations, no termination of this Agreement or any of the Other Documents shall in any way affect or impair (i) each Loan Party's Obligations to IBM Credit including, without limitation, any transaction or event occurring prior to and after such termination, or (ii) IBM Credit's rights hereunder, including, without limitation IBM Credit's security interest in the Collateral. On and after a Termination Date IBM Credit may, but shall not be obligated to, upon the request of Borrower, continue to provide Advances hereunder.

10.2. INDEMNIFICATION. Each of the Borrower and the Guarantors hereby jointly and severally agrees to indemnify and hold harmless IBM Credit and each of its officers, directors, agents and assigns (collectively, the "Indemnified Persons") against all losses, claims, damages, liabilities or other expenses (including reasonable attorneys' fees and court costs now or hereinafter arising from the enforcement of this Agreement, the "Losses") to which any of them may become subject insofar as such Losses arise out of or are based upon any event, circumstance or condition (a) occurring or existing on or before the date of this Agreement relating to any financing arrangements IBM Credit may from time to time have with (i) each Loan Party, (ii) any Person that shall be acquired by any Loan Party or (iii) any Person that any Loan Party may acquire all or substantially all of the assets of, or (b) directly or indirectly, relating to the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby or thereby or to any of the Collateral or to any act or omission of any Loan Party in connection therewith. Notwithstanding the foregoing, none of the Borrower or any of the Guarantors shall be obligated to indemnify IBM Credit for any Losses incurred by IBM Credit which are a result of IBM Credit's gross negligence or willful misconduct. The indemnity provided herein shall survive the termination of this Agreement.

10.3. ADDITIONAL OBLIGATIONS. IBM Credit, without waiving or releasing any Obligation or Default of any Loan Party, may perform any Obligations of the any Loan Party that any Loan Party shall fail or refuse to perform and IBM Credit may, at any time or times hereafter, but shall be under no obligation to do so, pay, acquire or accept any assignment of any security interest, lien, encumbrance or claim against the Collateral asserted by any person. All sums paid by IBM Credit in performing in satisfaction or on account of the foregoing and any expenses, including reasonable attorney's fees, court costs, and other charges relating thereto, shall be a part of the Obligations, payable on demand and secured by the Collateral.

10.4. LIMITATION OF LIABILITY. NEITHER IBM CREDIT NOR ANY OTHER INDEMNIFIED PERSON SHALL HAVE ANY LIABILITY WITH RESPECT TO ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES SUFFERED BY ANY LOAN PARTY IN CONNECTION WITH THIS AGREEMENT, ANY OTHER AGREEMENT, ANY

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DELAY, OMISSION OR ERROR IN THE ELECTRONIC TRANSMISSION OR RECEIPT OF ANY E-DOCUMENT, OR ANY CLAIMS IN ANY MANNER RELATED THERETO. NOR SHALL IBM CREDIT OR ANY OTHER INDEMNIFIED PERSON HAVE ANY LIABILITY TO ANY LOAN PARTY OR ANY OTHER PERSON FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY IT OR THEM HEREUNDER, EXCEPT FOR ITS OR THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. IN THE EVENT BORROWER REQUESTS IBM CREDIT TO EFFECT A WITHDRAWAL OR DEBIT OF FUNDS FROM AN ACCOUNT OF BORROWER, THEN IN NO EVENT SHALL IBM CREDIT BE LIABLE FOR ANY AMOUNT IN EXCESS OF ANY AMOUNT INCORRECTLY DEBITED, EXCEPT IN THE EVENT OF IBM CREDIT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. NO PARTY SHALL BE LIABLE FOR ANY FAILURE TO PERFORM ITS OBLIGATIONS IN CONNECTION WITH ANY E-DOCUMENT, WHERE SUCH FAILURE RESULTS FROM ANY ACT OF GOD OR OTHER CAUSE BEYOND SUCH PARTY'S REASONABLE CONTROL (INCLUDING, WITHOUT LIMITATION, ANY MECHANICAL, ELECTRONIC OR COMMUNICATIONS FAILURE) WHICH PREVENTS SUCH PARTY FROM TRANSMITTING OR RECEIVING E-DOCUMENTS.

10.5. ALTERATION/WAIVER. This Agreement and the Other Documents may not be altered or amended except by an agreement in writing signed by each Loan Party signatory to such agreement and by IBM Credit. No delay or omission of IBM Credit to exercise any right or remedy hereunder, whether before or after the occurrence of any Event of Default, shall impair any such right or remedy or shall operate as a waiver thereof or as a waiver of any such Event of Default. In the event that IBM Credit at any time or from time to time dispenses with any one or more of the requirements specified in this Agreement or any of the Other

Documents, such dispensation may be revoked by IBM Credit at any time and shall not be deemed to constitute a waiver of any such requirement subsequent thereto. IBM Credit's failure at any time or times to require strict compliance and performance by each Loan Party of any undertakings, agreements, covenants, warranties and representations of this Agreement or any Other Document shall not waive, affect or diminish any right of IBM Credit thereafter to demand strict compliance and performance thereof. Any waiver by IBM Credit of any Default by any Loan Party under this Agreement or any of the Other Documents shall not waive or affect any other Default by any Loan Party under this Agreement or any of the Other Documents, whether such Default is prior or subsequent to such other Default and whether of the same or a different type. None of the undertakings, agreements, warranties, covenants, and representations of any Loan Party contained in this Agreement or the Other Documents and no Default by any Loan Party shall be deemed waived by IBM Credit unless such waiver is in writing signed by an authorized representative of IBM Credit.

10.6. SEVERABILITY. If any provision of this Agreement or the Other Documents or the application thereof to any Person or circumstance is held invalid or unenforceable, the remainder of this Agreement and the Other Documents and the application of such provision to other Persons or circumstances will not be affected thereby, the provisions of this Agreement and the Other Documents being severable in any such instance.

10.7. ONE LOAN. All Advances heretofore, now or at any time or times hereafter made by IBM Credit to the Borrower under this Agreement or the Other Documents shall constitute one loan secured by IBM Credit's security interests in the Collateral and by all other security interests, liens and encumbrances heretofore, now or from time to time hereafter granted by any Loan Party to IBM Credit or any assignor of IBM Credit.

10.8. ADDITIONAL COLLATERAL. All monies, reserves and proceeds received or collected by IBM Credit with respect other property of any Loan Party in possession of IBM Credit at any time or times hereafter are hereby pledged by such Loan Party to IBM Credit as security for the payment of each Borrower's Obligations and shall be applied promptly by IBM Credit on account of Borrower's Obligations; provided, however, IBM Credit may release to the Borrower such portions of such monies, reserves and proceeds as IBM Credit may from time to time determine, in its sole discretion.

10.9. NO MERGER OR NOVATIONS. (A) Notwithstanding anything contained in any document to the contrary, it is understood and agreed by each any Loan Party and IBM Credit that the claims of IBM Credit arising hereunder and existing as of the date hereof constitute continuing claims arising out of the Obligations of each Loan Party under the Existing Financing Agreement and any Other Document. Each Loan Party acknowledges and agrees that such Obligations outstanding as of the date hereof have not

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been satisfied or discharged and that this Agreement is not intended to effect a novation of any Loan Party's Obligations under the Existing Financing Agreement and any Other Document.

(B) Neither the obtaining of any judgment nor the exercise of any power of seizure or sale shall operate to extinguish the Obligations of any Loan Party to IBM Credit secured by this Agreement and shall not operate as a merger of any covenant in this Agreement, and the acceptance of any payment or alternate security shall not constitute or create a novation and the obtaining of a judgment or judgments under a covenant herein contained shall not operate as a merger of that covenant or affect IBM Credit's rights under this Agreement.

10.10. PARAGRAPH TITLES. The Section titles used in this Agreement and the Other Documents are for convenience only and do not define or limit the contents of any Section.

10.11. BINDING EFFECT; ASSIGNMENT. This Agreement and the Other Documents shall be binding upon and inure to the benefit of IBM Credit and the each Loan Party and their respective successors and assigns; provided, that no Loan Party shall have the right to assign this Agreement or any of the Other Documents without the prior written consent of IBM Credit.

10.12. OBLIGATIONS. Subject to Section 10.5 above, the Obligations and any terms and provisions herein may be modified or amended only by a document signed by

IBM Credit and the other parties hereto.

10.13. NOTICES; E-BUSINESS ACKNOWLEDGMENT. (A) Except as otherwise expressly provided in this Agreement, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered (i) upon receipt if deposited in the United States mails, first class mail, with proper postage prepaid, (ii) upon receipt of confirmation or answerback if sent by telecopy, or other similar facsimile transmission, (iii) one Business Day after deposit with a reputable overnight courier with all charges prepaid, or (iv) when delivered, if hand-delivered by messenger, all of which shall be properly addressed to the party to be notified and sent to the address or number indicated as follows:

(i) If to IBM Credit at:

IBM Credit Corporation
4000 Executive Parkway, Third Floor
San Ramon, CA 94583
Attention: Region Manager, West
Facsimile: (925) 277-5675

(ii) If to Borrower at:

Supplies Distributors, Inc.
500 North Central Expressway
Plano, TX 75074
Attention: Mr. Joe Farrell
President
Facsimile: (888) 330-5504

(iii) If to Holdings at:

Business Supplies Distributors Holdings, LLC
500 North Central Expressway
Plano, TX 75075
Attention: Mr. Joe Farrell, Manager
Facsimile: (888) 330-5504

(iv) If to PFS:

Priority Fulfillment Services, Inc.
500 North Central Expressway
Plano, TX 75074
Attention: Mr. Thomas J. Madden
Executive Vice President,
Chief Financial Officer
Facsimile: (888) 330-5504

(v) If to IFP at:

Inventory Financing Partners, LLC
500 North Central Expressway
Plano, TX 75074
Attention: Mr. Joe Farrell, Manager
Facsimile: (888)330-5504

(vi) If to PFSweb at:

PFSweb, Inc.
500 North Central Expressway
Plano, TX 75074
Attention: Mr. Thomas J. Madden
Executive Vice President,
Chief Financial Officer
Facsimile: (888) 330-5504

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or to such other address or number as each party designates to the other in the manner prescribed herein.

(B) (i) Each party may electronically transmit to or receive from the other party certain documents set forth in Attachment J ("E-Documents") via the Internet or electronic data interchange ("EDI"). Any transmission of data which is not an E-Document shall have no force or effect between the parties. EDI transmissions may be sent directly or through any third party service provider ("Provider") with which either party may contract. Each party shall be liable for the acts or omissions of its Provider while handling E-Documents for such party, provided, that if both parties use the same Provider, the originating party shall be liable for the acts or omissions of such Provider as to such E-Document. Some information to be made available to each Loan Party will be specific to such Loan Party and will require such Borrower's or Loan Parties' registration with IBM Credit before access is provided. After IBM Credit has approved the registration submitted by such Loan Party, IBM Credit shall provide an ID and password(s) to an individual designated by such Loan Party ("Recipient"). Each Loan Party accepts responsibility for the designated individual's distribution of the ID and password(s) within its organization and each Loan Party will take reasonable measures to ensure that passwords are not shared or disclosed to unauthorized individuals. Each Loan Party will conduct an annual review of all IDs and passwords to ensure they are accurate and properly authorized. IBM CREDIT MAY CHANGE OR DISCONTINUE USE OF AN ID OR PASSWORD AT ITS DISCRETION AT ANY TIME. E-Documents shall not be deemed to have been properly received, and no E-Document shall give rise to any obligation, until accessible to the receiving party at such party's receipt computer at the address specified herein. Upon proper receipt of an E-Document, the receiving party shall promptly transmit a functional acknowledgment in return. A functional acknowledgment

shall constitute conclusive evidence that an E-Document has been properly received. If any transmitted E-Document is received in an unintelligible or garbled form, the receiving party shall promptly notify the originating party in a reasonable manner. In the absence of such a notice, the originating party's records of the contents of such E-Document shall control.

(ii) Each party shall use those security procedures which are reasonably sufficient to ensure that all transmissions of E-Documents are authorized and to protect its business records and data from improper access. Any E-Document received pursuant to this Section 10.13 shall have the same effect as if the contents of the E-Document had been sent in paper rather than electronic form. The conduct of the parties pursuant to this Section 10.13 shall, for all legal purposes, evidence a course of dealing and a course of performance accepted by the parties. The parties agree not to contest the validity or enforceability of E-Documents under the provisions of any applicable law relating to whether certain agreements are to be in writing or signed by the party to be bound thereby. The parties agree, as to any E-Document accompanied by any Loan Party's ID, that IBM Credit can reasonably rely on the fact that such E-Document is properly authorized by such Loan Party. E-Documents, if introduced as evidence on paper in any judicial, arbitration, mediation or administrative proceedings, will be admissible as between the parties to the same extent and under the same conditions as other business records originated and maintained in documentary form. Neither party shall contest the admissibility of copies of E-Documents under either the business records exception to the hearsay rule or the best evidence rule on the basis that the E-Documents were not originated or maintained in documentary form.

RECIPIENT INFORMATION for Internet transmissions:

Name of Borrower's, Holdings' and IFP's Designated Central Contact Authorized to Receive IDs and Passwords:

Joe Farrell
E-MAIL ADDRESS: jfarrell@pfsweb.com
PHONE NUMBER:

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Name of PFS's and PFSweb's Designated Central Contact Authorized to Receive IDs and Passwords:

Thomas J. Madden
E-MAIL ADDRESS: tmadden@pfsweb.com
PHONE NUMBER:

10.14. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto were upon the same instrument.

10.15. ATTACHMENT A MODIFICATIONS. IBM Credit may modify the Product Financing Period set forth in Attachment A from time to time if on at least two occasions during any three-month period a Shortfall Amount has become due and payable and may modify the Collateral Insurance Amount set forth in Attachment A from time to time, in each case, by providing each Loan Party with a new Attachment A. Any such new Attachment A shall be effective as of the date specified in the new Attachment A.

10.16. SUBMISSION AND CONSENT TO JURISDICTION AND CHOICE OF LAW. TO INDUCE IBM CREDIT TO ACCEPT THIS AGREEMENT AND THE OTHER DOCUMENTS, EACH OF LOAN PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(A) SUBMITS ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND ANY OTHER DOCUMENT, OR FOR THE RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE NON-EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND ANY FEDERAL DISTRICT COURT IN NEW YORK.

(B) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREINAFTER HAVE TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME.

(C) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, TO BORROWER AT ITS ADDRESS SET FORTH IN SECTION 10.12 OR AT SUCH OTHER ADDRESS OF WHICH IBM CREDIT SHALL HAVE BEEN NOTIFIED PURSUANT THERETO;

(D) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT TO SUE IN ANY OTHER JURISDICTION.

(E) AGREES THAT THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS (WITHOUT GIVING EFFECT TO CONFLICT OF LAW PROVISIONS) OF THE STATE OF NEW YORK.

10.17. JURY TRIAL WAIVER. EACH OF IBM CREDIT AND EACH LOAN PARTY HEREBY IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING (INCLUDING ANY COUNTERCLAIM) OF ANY TYPE IN WHICH IBM CREDIT AND ANY LOAN PARTY ARE PARTIES AS TO ALL MATTERS ARISING DIRECTLY OR INDIRECTLY OUT OF THIS AGREEMENT OR ANY DOCUMENT, INSTRUMENT OR AGREEMENT EXECUTED IN CONNECTION HEREWITH.

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IN WITNESS WHEREOF, each Loan Party has read this entire Agreement, and has caused its authorized representatives to execute this Agreement and has caused its corporate seal, if any, to be affixed hereto as of the date first written above.

IBM CREDIT CORPORATION

SUPPLIES DISTRIBUTORS, INC.

By: _____
Print Name: _____
Title: _____

By: _____
Print Name: _____
Title: _____

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

PRIORITY FULFILLMENT SERVICES, INC.

By: _____ as Managing Member
By: _____
Print Name: _____
Title: _____

By: _____
Print Name: _____
Title: _____

INVENTORY FINANCING PARTNERS, LLC

PFSWEB, INC.

By: _____ as Managing Member
By: _____
Print Name: _____
Title: _____

By: _____
Print Name: _____
Title: _____

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IBM CREDIT CORPORATION

AMENDED AND RESTATED
COLLATERALIZED GUARANTY

Priority Fulfillment Services, Inc. ("Guarantor") and IBM Credit Corporation having an office located at 4000 Executive Parkway, 3rd Floor, San Ramon, CA 94583 ("IBM Credit") entered into a Collateralized Guaranty dated September 27, 2001 (the "Prior Guaranty"). IBM Credit and Guarantor wish and amend and restate the Prior Guaranty on the terms and conditions set forth herein. In consideration of credit and financing accommodations granted or to be granted by IBM Credit to Supplies Distributors, Inc. (formerly BSD Acquisition Corp.) ("Borrower"), which is in the best interest of the Guarantor, and for other good and valuable consideration received, Guarantor jointly and severally guaranties to IBM Credit, from property held separately, jointly or in community, the prompt and unconditional performance and payment by Borrower of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Borrower is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM Credit ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM Credit and hold IBM Credit harmless against any losses it may sustain and expenses it may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Borrower. Capitalized terms used herein without definition shall have the meaning described thereto in the Agreement for Inventory Financing dated March 29, 2002 among Borrower, Guarantor, Business Supplies Distributors Holdings, LLC, Inventory Financing Partners, LLC, and PFSweb, Inc. (as amended, modified and supplemented from time to time, the "Financing Agreement").

If Borrower fails to pay or perform any Liabilities to IBM Credit when due, all Liabilities to IBM Credit shall then be deemed to have become immediately due and payable, and Guarantor shall then pay upon demand the full amount of all sums owed to IBM Credit by Borrower, together with all expenses, including reasonable attorney's fees.

The liability of Guarantor is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between IBM Credit and Borrower, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, or the waiver of any default or event of default under any financing agreement between IBM Credit and Borrower, or the release or non-perfection of any security thereunder, any change in Borrower's financial condition, or the interruption of business relations between IBM Credit and Borrower. This Amended and Restated Guaranty is and shall be deemed to be a continuing guaranty and shall remain in full force and effect until the indefeasible payment in full of the Liabilities and any other amounts payable under this Amended and Restated Guaranty and the cessation of all obligations of IBM Credit to extend credit to Borrower. Guarantor acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM Credit and Borrower or any other person creating or reserving any lien, encumbrance or security interest in any property of Borrower or any other person as security for any obligation of Borrower. IBM Credit need not exhaust its rights or recourse against Borrower or any other person or any security IBM Credit may have at any time before being entitled to payment from Guarantor.

To secure payment of all of Guarantor's current and future debts and obligations to IBM Credit, whether under this Amended and Restated Guaranty or any other agreement between IBM Credit and Guarantor and to secure the Liabilities, whether direct or contingent, Guarantor does assign, pledge and give to IBM Credit a security interest in all of Guarantor's personal property, whether now owned or hereafter acquired or existing and wherever located, including the following: (a) all inventory and equipment manufactured or sold by or bearing the trademark or tradename of International Business Machines Corporation ("IBM") or any other Authorized Supplier and all parts thereof, attachments, additions, accessories and accessions thereto, all substitutions, repossessions, exchanges, replacements and

returns thereof, all price protection credits, rebates, discounts and incentive payments relating to the foregoing, products, insurance and proceeds thereof and documents therefor ("IBM Credit Inventory"); (b) all accounts, chattel paper, instruments, negotiable documents, promissory notes, general intangibles (including contract rights, software and licenses), deposit accounts, commercial tort claims, intellectual property, investment property, pledged notes, letter of credit rights, supporting obligations, obligations of any kind owing to Guarantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and all books, invoices, documents and other records in any form evidencing or relating to any of the foregoing; (c) all substitutions and replacements for all of the foregoing; and (d) all products or proceeds of all of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code as in effect in the State of New York and are hereinafter referred to as the "Collateral"). Collateral shall not include inventory and equipment of the Guarantor that is not IBM Credit Inventory (as defined above). In connection with any working capital financing Guarantor receives from another financial institution or commercial lender ("Lender"), Guarantor may request that IBM Credit subordinate its interest in the Collateral (excluding the IBM Credit Inventory) and IBM Credit will not unreasonably withhold its consent provided that:

- (1) No default or event of default exists;
- (2) IBM Credit and Lender shall have entered into a subordination agreement in form and substance satisfactory to IBM Credit in all respects in its sole discretion;
- (3) IBM Credit shall be satisfied that the IBM Credit Inventory shall be segregated from the other property of Guarantor and its customers and IBM Credit shall have a first perfected priority security interest in the IBM Credit Inventory; and
- (4) The books and records maintained on behalf of the Borrower shall be kept separately from Guarantor's other books and records and Guarantor shall have conspicuously noted on the Borrower's books and records that such books and records are the property of Borrower.

IBM Credit shall have the right, but not the obligation, from time to time, as IBM Credit in its sole discretion may determine, and all without any advance notice to Guarantor, to: (a) examine the Collateral; (b) appraise it as security; (c) verify its condition and nonuse; (d) verify that all Collateral has been properly accounted for and this Agreement complied with, and (e) assess, examine, check and make copies of any and all of Guarantor's books, records and files.

If Guarantor does not comply with any of the terms of this Agreement or the Financing Agreement, or Guarantor fails to fulfill any obligation to IBM Credit or any of IBM Credit's affiliates under any other agreement between IBM Credit and Guarantor or between Guarantor and any of IBM Credit's affiliates, or Guarantor becomes insolvent or ceases to do business as a going concern, or a bankruptcy, insolvency proceeding, arrangement or reorganization is filed by or against Guarantor, or any of Guarantor's property is attached or seized, or a receiver is appointed for Guarantor, or Guarantor commits any act which impairs the prospect of full performance or satisfaction of Guarantor's obligations to IBM Credit, or Guarantor shall lose any franchise, permission, license or right to conduct its business, or Guarantor misrepresents its financial condition or organizational structure, or whenever IBM Credit deems the debt or Collateral to be insecure:

- a) IBM Credit may call all or any part of the amount Guarantor or Borrower owes IBM Credit due and payable immediately, if permitted by applicable law, together with court costs and all costs and expenses of IBM Credit's repossession and collection activity, including, but not limited to reasonable attorney's fees.
- b) Guarantor will hold and keep the Collateral in trust, in good order and repair, for IBM Credit's benefit and shall not exhibit or sell it.

c) Upon IBM Credit's demand, Guarantor will immediately deliver the Collateral to IBM Credit, in good order and repair, at a place reasonably convenient to IBM Credit, together with all related documents; or IBM Credit may, in IBM Credit's sole discretion and without demand, take immediate possession of the Collateral, together with all related documents.

d) Guarantor waives and releases: (i) any and all claims and causes of action which Guarantor may now or ever have against IBM Credit as a result of any possession, repossession, collection or sale by IBM Credit of any of the Collateral, notwithstanding the effect of such possession, repossession, collection or sale upon Guarantor's business; (ii) all rights of redemption from any such sale; and (iii) the benefit of all valuation, appraisal and exemption laws. If IBM Credit seeks to take possession of any of the Collateral by replevin or other court process, Guarantor irrevocably waives any notice, bonds, surety and security relating thereto required by any statute, court rule or otherwise as an incident to such possession and any demand for possession of the Collateral prior to the commencement of any suit or action to recover possession thereof.

e) Guarantor appoints IBM Credit or any person IBM Credit may delegate as its duly authorized Attorney-in-Fact (without notifying Guarantor) to do, in IBM Credit's sole discretion, any of the following: (i) sell, assign, transfer, negotiate or pledge any and all accounts, chattel paper, or contract rights; (ii) endorse Guarantor's name on any and all notes, checks, drafts, or other forms of exchange received as payment on any accounts, chattel paper and contract rights, for deposit in IBM Credit's account; (iii) grant any extension, rebate or renewal on any and all accounts, chattel paper or contract rights, or enter into any settlement thereof; (iv) demand, collect and receive any and all amounts due on accounts, chattel paper and contract rights; and (v) exercise any and all rights Guarantor has in the Collateral.

f) In the event Guarantor brings any action or asserts any claim against IBM Credit which arises out of this Agreement, any other agreement or any of Guarantor's and IBM Credit's business dealings, in which Guarantor does not prevail, Guarantor agrees to pay IBM Credit all court costs and all costs and expenses of IBM Credit's defense of such action of claim including, but not limited to, reasonable attorney's fees.

IBM Credit may also declare a default under this Agreement and exercise any and all rights and remedies available herein, if, in IBM Credit's sole discretion, IBM Credit determines that the Collateral has decreased in value, and Guarantor has been unable to either: (a) provide IBM Credit with additional Collateral in a form and substance satisfactory to IBM Credit; or (b) pay the Shortfall Amount as defined in the Financing Agreement.

IBM Credit has and will always possess all the rights and remedies of a secured party under law, and IBM Credit's rights and remedies are and will always be cumulative. Guarantor acknowledges and agrees that the Collateral is the subject of widely distributed standard price quotations and is customarily sold in a recognized market. Guarantor agrees that a private sale by IBM Credit of any of the Collateral to a dealer in those types of Collateral is a commercially reasonable sale. Further, Guarantor agrees that IBM Credit's delivery of any of the Collateral to a distributor or manufacturer, with a request that it repurchase Collateral, as provided in any repurchase agreement with IBM Credit, is a commercially reasonable disposition or sale.

Guarantor promises that (a) the Collateral is and shall remain free from all claims and liens except IBM Credit's and the lien of Congress Financial Corporation (Southwest); (b) Guarantor shall defend the Collateral against all other claims and demands; and (c) Guarantor will notify IBM Credit before it signs, or authorizes the signing of any financing statement regardless of its coverage. Guarantor authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM Credit

as secured party and Guarantor as the debtor and identifying IBM Credit's security interest in the Collateral that IBM Credit deems necessary to perfect and maintain IBM Credit's security

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interest in the Collateral. Guarantor will execute any and all documents IBM Credit may request to confirm or perfect IBM Credit's title or security interest in the Collateral.

Guarantor represents and covenants that the first paragraph of this Amended and Restated Guaranty states the exact name of Guarantor as set forth in its charter or other organizational record. Guarantor represents that it is duly organized under the laws of the State of Delaware and the organization document creating Guarantor has been filed in the appropriate office of such State. In addition, Guarantor's organizational identification number assigned by its State of organization is as follows: 2606094. Guarantor's principal place of business is located at 500 North Central Expressway, Plano, TX 75074 and Guarantor represents that its business is conducted as a CORPORATION. Guarantor will not change its name, location (as defined in Article 9 of the U.C.C.) or State of organization. Guarantor shall provide IBM Credit at least thirty (30) days prior written notice of any change in its form of ownership, management, and of any change in its principal place of business, or any additions or discontinuances of other business locations. The Collateral shall be kept at Guarantor's principal place of business and at the following addresses:

until all sums owed IBM Credit are paid in full. Guarantor will immediately notify IBM Credit if the Collateral is kept at any other address. This paragraph is for IBM Credit's informational purposes only, and is not in any way or manner intended to limit the extent of IBM Credit's security interest in the Collateral. Guarantor and its predecessors have done and do business only under the following names: Priority Fulfillment Services, Inc. and PFSweb, Inc.

Guarantor will pay all taxes, license fees, assessments and charges on the Collateral when due. Guarantor will be responsible for any loss of Collateral for any reason whatsoever. Guarantor will keep the Collateral insured for its full insurable value against loss or damage by fire, wind, and theft and for combined additional coverage, including vandalism and malicious mischief, and for other risks as IBM Credit may require. Guarantor will obtain insurance under such terms and in amounts as IBM Credit may specify, from time to time, in companies acceptable to IBM Credit, with a loss-payee or mortgagee clause payable to IBM Credit to the extent of any loss to the Collateral and containing a waiver of all defenses against Guarantor that is acceptable to IBM Credit. Guarantor further agrees to provide IBM Credit with written evidence of the required insurance coverage and loss-payee or mortgagee clause. Guarantor assigns to IBM Credit all sums not in excess of the unpaid debt owed IBM Credit, and directs any insurance company to make payment directly to IBM Credit to be applied to the unpaid debt owed IBM Credit. Guarantor further grants IBM Credit an irrevocable power of attorney to endorse any draft and sign and file all of the necessary papers, forms and documents to initiate and settle any and all claims with respect to the Collateral. If Guarantor fails to pay any of the above-referenced costs, charges or any insurance premiums, or if it fails to insure the Collateral, IBM Credit may pay such costs, charges or any insurance premiums, and the amounts paid shall be considered an additional debt owed by Guarantor to IBM Credit. Guarantor will promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral.

Guarantor will not rent, lease, lend, demonstrate, pledge, create a security interest in, transfer or secrete any of the Collateral, or use the Collateral for any purpose other than exhibition, without IBM Credit's prior written consent.

This Amended and Restated Guaranty is assignable by IBM Credit, shall be construed liberally in IBM Credit's favor, and shall inure to the benefit of and bind IBM Credit's and Guarantor's respective successors, personal representatives and assigns. Guarantor shall not assign this Amended and

Restated Guaranty or its obligations hereunder without the prior written consent of IBM Credit.

If Borrower hereafter is incorporated, acquired by a corporation, dissolved, or otherwise undergoes any change in its management, ownership, identity, or organizational structure, this Amended and Restated Guaranty shall continue to extend to any Liabilities of the Borrower or such resulting corporation, dissolved corporation, or new or changed legal entity, or identity to IBM Credit.

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Guarantor waives: notice of the acceptance of this Amended and Restated Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance and dishonor; notices of amount of indebtedness of Borrower outstanding at any time; notices of the number and amount of advances made by IBM Credit to Borrower in reliance on this Amended and Restated Guaranty; notice of the financial condition of Borrower or any other guarantor or any change therein; notice of the release of collateral for the Liabilities, of any other guaranty, pledge or suretyship agreement or any collateral therefor; notices of any legal proceedings or other efforts to collect against Borrower; notice of any recoupment, setoff, administrative freeze on Borrower's credit or assets; notice and any opportunity for a hearing as to any prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights to assert against IBM Credit any right of recoupment, setoff, and all claims, defenses, and counterclaims against IBM Credit or Borrower, including any defense based on the lack of good faith. To the extent permitted by law, Guarantor also waives any and all rights in and notices or demands relating to any Collateral now or hereafter securing any of the Liabilities. All waivers by Guarantor herein shall survive any termination or revocation of this Amended and Restated Guaranty.

Guarantor authorizes IBM Credit to sell at public or private sale or otherwise realize upon the Collateral now or hereafter securing any of the Liabilities, in such manner and upon such terms and conditions as IBM Credit deems best, all without advertisement or notice to Borrower, Guarantor, or any third parties. Guarantor further authorizes IBM Credit to deal with the proceeds of such Collateral as provided in IBM Credit's agreement with Borrower, without prejudice to IBM Credit's claim for any deficiency and free from any right or redemption on the part of Borrower, Guarantor or any third parties, which right or redemption is hereby waived together with every formality prescribed by custom or by law in relation to any such sale or other realization.

Guarantor further agrees that all of its right, title and interest in, to and under any loans, notes, debts and all other liabilities and obligations whatsoever owed by Borrower to Guarantor, whether heretofore or hereafter created or incurred and for whatever amount, and all security therefor, shall be now and hereafter at all times fully subordinated to all Liabilities. Guarantor will not ask, demand or sue for, or take or receive payment of, all or any part of such loans, notes, debts or any other liabilities or obligations whatsoever or any security therefor, until and unless all of the Liabilities are paid, performed and fully satisfied except as expressly permitted by the Financing Agreement and provided no default or event of default exists. In addition, until such time that the Liabilities are indefeasibly paid in full, Guarantor irrevocably waives, for the benefit of IBM Credit, any and all rights which it presently has, or may hereafter have, whether by virtue of any payment or payments hereunder or otherwise, to be subrogated to the rights of IBM Credit against the Borrower with respect to any such indebtedness of the Borrower to IBM Credit.

Guarantor has made an independent investigation of the financial condition of Borrower and gives this Amended and Restated Guaranty based on that investigation and not upon any representations made by IBM Credit. Guarantor acknowledges that it has access to current and future Borrower financial information which will enable Guarantor to continuously remain informed of Borrower's financial condition. Guarantor also consents to and agrees that the obligations under this Amended and Restated Guaranty shall not be affected by IBM Credit's subsequent increases or decreases in the credit line that IBM Credit may grant to Borrower; substitutions, exchanges or releases of all or any part of the Collateral now or hereafter securing any of the Liabilities; sales

or other dispositions of any or all of the Collateral now or hereafter securing any of the Liabilities without demands, advertisement or notice of the time or place of the sales or other dispositions; realizing on the Collateral to the extent IBM Credit, in IBM Credit's sole discretion, deems proper; or purchases of all or any part of the Collateral for IBM Credit's own account.

This Amended and Restated Guaranty and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against Borrower, whether such proceedings, actions and/or claims are federal and/or state.

This Amended and Restated Guaranty is submitted by Guarantor to IBM Credit (for IBM Credit's acceptance or rejection thereof) at IBM Credit's above specified office; as an offer by Guarantor to

Page 5 of 7

guaranty the credit and financial accommodations provided by IBM Credit to Borrower. If accepted, this Amended and Restated Guaranty shall be deemed to have been made at IBM Credit's above-specified office. THIS AMENDED AND RESTATED GUARANTY AND ALL OBLIGATIONS PURSUANT THERETO, SHALL BE GOVERNED AND CONTROLLED AS TO INTERPRETATION, ENFORCEMENT, VALIDITY, CONSTRUCTION, EFFECT AND, IN ALL OTHER RESPECTS BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS. GUARANTOR, TO INDUCE IBM CREDIT TO ACCEPT THIS AMENDED AND RESTATED GUARANTY, AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING DIRECTLY OR INDIRECTLY IN CONNECTION WITH, OUT OF, RELATED TO OR FROM THIS AMENDED AND RESTATED GUARANTY MAY BE LITIGATED, AT IBM CREDIT'S SOLE DISCRETION AND ELECTION, IN COURTS WITHIN THE STATE OF NEW YORK. GUARANTOR CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN THAT STATE. GUARANTOR WAIVES ANY RIGHT TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST GUARANTOR BY IBM CREDIT IN ACCORDANCE WITH THIS PARAGRAPH.

Any delay by IBM Credit, or IBM Credit's successors or assigns in exercising any or all rights granted IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM Credit, IBM Credit's successors or assigns, to exercise any or all rights granted IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of IBM Credit's right to exercise any or all of them later.

Notwithstanding anything contained in any document to the contrary, it is understood and agreed that the rights and claims of IBM Credit under the Prior Guaranty continue hereunder and the obligations of Guarantor under the Prior Guaranty constitute Liabilities hereunder.

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Page 6 of 7

This document contains the full agreement of the parties concerning the guaranty of Borrower's Liabilities and can be varied only by a document signed by all of the parties hereto.

THE PARTIES AGREE THAT ANY ACTION, SUIT OR PROCEEDING, RELATING DIRECTLY OR INDIRECTLY TO THIS AMENDED AND RESTATED GUARANTY, OR THE RELATIONSHIP BETWEEN IBM CREDIT AND GUARANTOR, WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, THE PARTIES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

WITNESS

PRIORITY FULFILLMENT SERVICES, INC.
GUARANTOR

Print Name:

(SEAL)

By:

Print Name: Thomas J. Madden

Title: CFO

Date: 3/29/02

Guarantor's Address:

500 North Central Exp.

Suite 500

Plano, TX 75074

ATTEST:

Secretary

Print Name:

IBM CREDIT CORPORATION

By:

Print Name: John M. White

Title: Director of Global Credit Operations

IBM CREDIT CORPORATION

AMENDED AND RESTATED GUARANTY
(BY CORPORATION)

PFSweb, Inc. ("Guarantor") executed a Guaranty dated September 27, 2001 (the "Prior Guaranty") in favor of IBM Credit Corporation, having an office located at 4000 Executive Parkway, Third Floor, San Ramon, CA 94583 ("IBM Credit"). IBM Credit and Guarantor wish to amend and restate the Prior Guaranty on the terms and conditions set forth herein. In consideration of credit and financing accommodations granted or to be granted by IBM Credit to Supplies Distributors, Inc. (formerly BSD Acquisition Corp.) ("Customer") under a financing agreement between IBM Credit and Customer, which is in the best interest of Guarantor, and for other good and valuable consideration received, Guarantor guarantees to IBM Credit the prompt and unconditional performance and payment by Customer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Customer is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM Credit ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM Credit and hold IBM Credit harmless against any losses IBM Credit may sustain and expenses it may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Customer.

If Customer fails to pay or perform any Liabilities to IBM Credit when due, all Liabilities to IBM Credit shall then be deemed to have become immediately due and payable, and Guarantor shall then pay upon demand the full amount of all sums owed to IBM Credit by Customer, together with all expenses, including reasonable attorney's fees.

The liability of Guarantor is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between IBM Credit and Customer, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, the release or non-perfection of any security thereunder, any change in Customer's financial condition, or the interruption of business relations between IBM Credit and Customer. This Amended and Restated Guaranty is and shall be deemed to be a continuing guaranty and shall remain in full force and effect until the indefeasible payment in full of the Liabilities and any other amounts payable under this Amended and Restated Guaranty and the cessation of all obligations of IBM Credit to extend credit to Customer. Guarantor acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM Credit and Customer or any other person creating or reserving any lien, encumbrance or security interest in any property of Customer or any other person as security for any obligation of Customer. IBM Credit need not exhaust its rights or recourse against Customer or any other person or any security it may have at any time before being entitled to payment from Guarantor.

This Amended and Restated Guaranty is assignable by IBM Credit, shall be construed liberally in IBM Credit's favor, and shall inure to the benefit of and bind IBM Credit's and Guarantor's respective successors, personal representatives and assigns. Guarantor shall not assign this Amended and Restated Guaranty or its obligations hereunder without the prior written consent of IBM Credit.

If Customer hereafter is incorporated, acquired by a corporation, dissolved, or otherwise undergoes any change in its management, ownership, identity or organizational structure, this Amended and Restated Guaranty shall continue to extend to any Liabilities of the Customer or such resulting corporation, dissolved corporation, or new or changed legal entity or identity to IBM Credit.

Guarantor waives: notice of the acceptance of this Amended and Restated Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance, any right of contribution from other guarantors, and dishonor; notices of amount of indebtedness of Customer outstanding at any time; notices

of the number and amount of advances made by IBM Credit to Customer in reliance on this Amended and Restated Guaranty; notices of any legal proceedings against Customer; notice and hearing as to any

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prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights of set-off and all counterclaims against IBM Credit or Customer. Guarantor also waives any and all rights in and notices or demands relating to any collateral now or hereafter securing any of the Liabilities, including, but not limited to, all rights, notices or demands relating, whether directly or indirectly, to the sale or other disposition of any or all of such collateral or the manner of such sale or other disposition. All waivers by Guarantor herein shall survive any termination or revocation of this Amended and Restated Guaranty. Guarantor authorizes IBM Credit to sell at public or private sale or otherwise realize upon the collateral now or hereafter securing any of the Liabilities, in such manner and upon such terms and conditions as IBM Credit deems best, all without advertisement or notice to Customer, Guarantor, or any third parties. Guarantor further authorizes IBM Credit to deal with the proceeds of such collateral as provided in IBM Credit's agreement with Customer, without prejudice to IBM Credit's claim for any deficiency and free from any right or redemption on the part of Customer, Guarantor or any third parties, which right or redemption is hereby waived together with every formality prescribed by custom or by law in relation to any such sale or other realization.

Guarantor further agrees that all of its right, title and interest in, to and under any loans, notes, debts and all other liabilities and obligations whatsoever owed by Customer to Guarantor, whether heretofore or hereafter created or incurred and for whatever amount, and all security therefor, shall be now and hereafter at all times fully subordinated to all Liabilities. Guarantor will not ask, demand or sue for, or take or receive payment of, all or any part of such loans, notes, debts or any other liabilities or obligations whatsoever or any security therefor, until and unless all of the Liabilities are paid, performed and fully satisfied.

Until such time the Liabilities are indefeasibly paid in full, the Guarantor hereby irrevocably waives for the benefit of IBM Credit, any and all rights which it presently has, or may hereafter have, whether by virtue of any payment or payments hereunder or otherwise, to be subrogated to the rights of IBM Credit against the Customer with respect to any such indebtedness of the Customer to IBM Credit.

Guarantor has made an independent investigation of the financial condition of Customer and gives this Amended and Restated Guaranty based on that investigation and not upon any representations made by IBM Credit. Guarantor acknowledges that it has access to current and future Customer financial information which will enable Guarantor to continuously remain informed of Customer's financial condition. Guarantor also consents to and agrees that the obligations under this Amended and Restated Guaranty shall not be affected by IBM Credit's: subsequent increases or decreases in the credit line that IBM Credit may grant to Customer; substitutions, exchanges or releases of all or any part of the collateral now or hereafter securing any of the Liabilities; sales or other dispositions of any or all of the collateral now or hereafter securing any of the Liabilities without demands, advertisement or notice of the time or place of the sales or other dispositions; realizing on the collateral to the extent IBM Credit, in its sole discretion, deems proper; or purchases of all or any part of the collateral for IBM Credit's own account.

This Amended and Restated Guaranty and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against Customer, whether such proceedings, actions and/or claims are federal and/or state.

This Amended and Restated Guaranty is submitted by Guarantor to IBM Credit (for IBM Credit's acceptance or rejection thereof) at IBM Credit's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM Credit to Customer. If accepted, this Amended and Restated Guaranty shall be deemed to have been made at IBM Credit's above specified office. This Amended and Restated Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, and effect and in all other respects by the laws of the State of New York without giving effect to the principles of

conflicts of laws. Guarantor, to induce IBM Credit to accept this Amended and Restated Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Amended and Restated Guaranty may be litigated, at IBM Credit's sole discretion and election, in courts within the State of New York. Guarantor consents and submits to the jurisdiction of any local, state or federal court located within that state. GUARANTOR WAIVES ANY RIGHT TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST GUARANTOR BY IBM CREDIT IN ACCORDANCE WITH THIS PARAGRAPH.

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Any delay by IBM Credit, or its successors or assigns in exercising any or all rights granted IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM Credit, its successors or assigns, to exercise any or all rights granted IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of IBM Credit's right to exercise any or all of them later.

Notwithstanding anything contained in any document to the contrary, it is understood and agreed that the rights and claims of IBM Credit under the Prior Guaranty continue hereunder and the obligations of Guarantor under the Prior Guaranty constitute Liabilities hereunder.

This document contains the full agreement of the parties concerning the guaranty of Customer's Liabilities and can be varied only by a document signed by all the parties hereto.

THE PARTIES AGREE THAT ANY ACTION, SUIT OR PROCEEDING RELATING DIRECTLY OR INDIRECTLY TO THIS AMENDED AND RESTATED GUARANTY OR THE RELATIONSHIP BETWEEN IBM CREDIT AND GUARANTOR, WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, THE PARTIES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

WITNESS: PFSWEB, INC.

(Print Name _____) By: _____
Name: Thomas J. Madden
Title: CFO
Date: March 29, 2002
Guarantor's Address:
500 North Central Exp.
Suite 500
Plano, TX 75074

(SEAL)

ATTEST:

(Secretary)
(Print Name _____)

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SECRETARY'S CERTIFICATE

I hereby certify that I am the Secretary of the following named corporation and that execution of the above Guaranty was ratified, approved and confirmed by the Shareholders at a meeting, if necessary, and pursuant to a resolution of the

Board of Directors of the corporation at a meeting of the Board of Directors duly called, and which is currently in effect, which resolution was duly presented, seconded and adopted and reads as follows:

"BE IT RESOLVED that any officer of this corporation is hereby authorized to execute a guaranty of the obligations of Supplies Distributors, Inc. (formerly BSD Acquisition Corp.) ("Customer") to IBM Credit Corporation on behalf of the corporation, which instrument may contain such terms as the above named persons may see fit including, but not limited to a waiver of notice of acceptance of this Amended and Restated Guaranty; presentment; demand; protest; notices of nonpayment, nonperformance, dishonor, the amount of indebtedness of Customer outstanding at any time, any legal proceedings against Customer, and any other demands and notices required by law; any right of contribution from other guarantors; and all set-offs and counterclaims."

IN WITNESS WHEREOF and as Secretary of the named corporation I have hereunto set my hand and affixed the corporate seal on this 29th day of March, 2002.

PFSWEB, INC.

(SEAL)

(Secretary)

IBM CREDIT CORPORATION

AMENDED AND RESTATED
NOTES PAYABLE SUBORDINATION AGREEMENT

IBM CREDIT CORPORATION
4000 Executive Parkway, Third Floor
San Ramon, CA 94583

Ladies and/or Gentlemen:

Supplies Distributors, Inc. (formerly BSD Acquisition Corp.), with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("SDI"), is/may become further indebted to Priority Fulfillment Services, Inc. ("PFS"). PFS represents that no part of said indebtedness has been assigned to or subordinated in favor of any other person, firm or corporation, other than pursuant to the Notes Payable Subordination Agreement, dated as of March 29, 2002 by and between PFS and Congress Financial Corporation (Southwest) ("Congress") ("Notes Payable Subordination Agreement") and that PFS does not hold any security therefor. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Financing Agreement referred to below.

To induce IBM Credit to enter into a financing agreement with SDI (as amended, modified, and supplemented from time to time, the "Financing Agreement") and in consideration of any loans, advances, payments, extensions or credit (including the extension or renewal, in whole or in part, of any antecedent or other debt), benefits or financial accommodations heretofore or hereafter made, granted or extended by IBM Credit or which IBM Credit has or will become obligated to make, grant or extend to or for the account of SDI whether under the Financing Agreement or otherwise, and in consideration of any obligations heretofore or hereafter incurred by SDI to IBM Credit, whether under the Financing Agreement or otherwise, PFS agrees to make the payment of the indebtedness referred to in the first paragraph hereof and any and all other present or future indebtedness of SDI to PFS together with any and all interest accrued thereon (collectively the "Secondary Obligations") subject and subordinate to the prior indefeasible payment in full of any and all debts, obligations and liabilities of SDI to IBM Credit, whether absolute or contingent, due or to become due, now existing or hereafter arising and whether direct or acquired by IBM Credit by transfer, assignment or otherwise (collectively the "Primary Obligations") and that SDI shall make no payments to PFS until the Primary Obligations have been indefeasibly paid in full as acknowledged in writing by IBM Credit. Notwithstanding the foregoing, SDI may make payments in respect of the Secondary Obligations provided that (i) no Default or Event of Default exists immediately prior to the payment of the Secondary Obligations and that no Default or Event of Default will occur after any payment in respect of the Secondary Obligations (ii) any such payment shall not cause the total amount of the Secondary Obligations to be less than six million five hundred thousand dollars (\$6,500,000), and (iii) such payment would be permitted under the Notes Payable Subordination Agreement. Except as provided above, PFS agrees not to ask, demand, sue for, take or receive payment or security for all or any part of the Secondary Obligations until and unless all of the Primary Obligations shall have been fully paid and discharged.

Upon any distribution of any assets of SDI whether by reason of sale, reorganization, liquidation, dissolution, arrangement, bankruptcy, receivership, assignment for the benefit of creditors, foreclosure or otherwise, IBM Credit shall be entitled to receive payment in full of the Primary Obligations prior to the payment of any part of the Secondary Obligations. To enable IBM Credit to enforce its rights hereunder in any such proceeding or upon the happening of any such event, IBM Credit or any person whom IBM Credit may from time to time designate is hereby irrevocably appointed attorney-in-fact for PFS with full power to act in the place and stead of PFS including the right to make, present, file and vote proofs of claim against SDI on account of all or any part of said Secondary Obligations as IBM Credit may deem advisable and to receive and collect any and all payments made thereon and to apply the same on account of the Primary Obligations. PFS will execute and deliver to such instruments as IBM Credit may

require to enforce each of the Secondary Obligations, to effectuate said power of attorney and to effect collection of any and all dividends or other payments which may be made at any time on account thereof.

While this instrument remains in effect, PFS will not assign to or subordinate in favor of any other person, firm or corporation, (except for Congress subject to terms of the Intercreditor Agreement dated the date hereof between Congress and IBM Credit) any right, claim or interest in or to the Secondary Obligations or commence or join with any other creditor in commencing any bankruptcy, reorganization or insolvency proceeding against SDI. IBM Credit may at any time, in its discretion, renew or extend the time of payment of all or any portion of the Primary Obligations or waive or release any collateral which may be held therefor and IBM Credit may enter into such agreements with SDI as IBM Credit may deem desirable without notice to or further assent from PFS and without adversely affecting IBM Credit's rights hereunder in any manner whatsoever.

In furtherance of the foregoing and as collateral security for the payment and discharge in full of any and all of the Primary Obligations, PFS hereby transfers and assigns to IBM Credit the Secondary Obligations and all collateral security therefor to which PFS now is or may at any time be entitled and all rights under all guarantees thereof and agrees to deliver to IBM Credit endorsed in blank all notes or other instruments now or hereafter evidencing said Secondary Obligations. IBM Credit may file one or more financing statements concerning any security interest hereby created without the signature of PFS appearing thereon.

The within instrument is and shall be deemed to be a continuing subordination and shall be and remain in full force and effect until all Primary Obligations have been performed and paid in full and IBM Credit's commitment, if any, under the Financing Agreement has been terminated.

This Agreement amends and restates the Notes Payable Subordination Agreement dated September 27, 2001 among the parties hereto.

Dated _____ .

PRIORITY FULFILLMENT SERVICES, INC.

By: _____

Name: Thomas J. Madden

Title: CFO

500 North Central Expressway
Plano, TX 75074

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To: IBM Credit Corporation

SDI hereby acknowledge notice of the within and foregoing subordination and agree to be bound by all the terms, provisions and conditions thereof. SDI further agrees not to repay all or any part of the Secondary Obligations, or to issue any note or other instrument evidencing the same or to grant any collateral security therefor without IBM Credit's prior written consent.

SUPPLIES DISTRIBUTORS, INC.

By: _____

Name: Joseph Farrell

Title: President/CEO

ACCEPTED:

IBM CREDIT CORPORATION

By:

Name: John M. White

Title: Director of Global Credit Operations

ACKNOWLEDGMENT OF SUBORDINATION

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) SS
-----)

On the 29th day of March, 2002, appeared before me _____
to me known to be the individual described in and who executed the foregoing
instrument, and who acknowledged to me that the same was executed as his or her
free and voluntary act for the uses and purposes therein set forth.

(Notary Public)

My Commission Expires:
,

IBM GLOBAL FINANCING

AMENDED AND RESTATED
PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)

IBM BELGIUM FINANCIAL SERVICES S.A.
and
SUPPLIES DISTRIBUTORS S.A.
BUSINESS SUPPLIES DISTRIBUTORS EUROPE B.V.
PFSWEB B.V.

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IBM GLOBAL FINANCING

PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)

THIS AGREEMENT is made on the date specified against the signature of IBM GF below among Suppliers Distributors S.A. with a registered number of RC Liege 208795 with an address of Rue Louis Bleriot 5, B-4460 Grace-Hollogne, Belgium ("SDSA"), and Business Supplies Distributors Europe BV a Netherlands company registered in Maastricht with a with a Netherlands trade registration number of

HR Maastricht 14062763 with an address of Dalderhaag 13, 6136 Sittard, The Netherlands ("BSDE") (SDSA and BSDE collectively, "YOU"), PFS Web B.V a Netherlands company registered in Maastricht under the number 17109541 with a Belgian trade registration number of R.C. Liege 204162 ("PFS Web B.V.") (SDSA, BSDE and PFS Web B.V. collectively, the "Loan Parties) and IBM Belgium Financial Services N.V. with a registered number of R.C. Brussels 451.673 with an address of Square Victoria Regina 1, BE-1210 Brussels VAT BE 424300467 ("IBM GF" or "US") and it amends and restates that IBM Global Financing Platinum Plan Agreement (with Receivables Discounting) executed among the same parties on 29 September 2001 (the "Prior Agreement") such that rights and obligations of both parties under the Prior Agreement are rights and obligations under this Agreement. This Agreement is effective as of the Effective Date (as defined herein).

WHEREAS IBM BF and the Loan Parties are parties to that certain Platinum Plan Agreement (with Invoice Discounting) dated 29 September 2001 (as heretofore amended, the ("Existing Financing Agreement");

WHEREAS the Loan Parties desire to enter into a factoring facility with Fortis Commercial Finance N.V with a place of business at Steenweg Op Tielen 51 Turnhout Belgium 2300 ("Fortis") for the purpose of Fortis factoring all of the Loan Parties Receivables (as defined herein) except Receivables from any IBM entity and IBM GF is willing to amend and restate the Existing Financing Agreement to discontinue factoring those Receivables which Fortis will factor, all according to the terms and conditions set forth herein;

WHEREAS we agree to provide you with a Credit Limit in respect of our purchase of Supplier Invoices, IBM Reimbursables, IBM Receivables and/or VAT Receivables under the terms and conditions of this Agreement.

AGREEMENT

1. DEFINITIONS

1.1 In this Agreement the following terms shall (unless the context otherwise requires) have the following meanings:-

"ADDITIONAL COLLATERAL": means that as specified in the Schedule, it being understood that Additional Collateral is not used when calculating the Shortfall Amount, if any, as described in Clause 7.4;

"AFFILIATE": means with respect to any Person, any other Person (the "Affiliate") meeting one of the following: (i) at least 10% of the Affiliate's equity is owned, directly or indirectly, by such Person; (ii) at least 10% of such Person's equity is owned, directly or indirectly, by the Affiliate; or (iii) at least 10% of such Person's equity and at least 10% of the Affiliate's equity is owned, directly or indirectly, by the same Person or Persons. All your officers, directors, joint venturers, and partners shall also be deemed to be Affiliates for purposes of this Agreement. All of Loan Parties' officers, directors, joint venturers, and partners shall also be deemed to be Affiliates of such Loan Party for purposes of this Agreement.

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"AGREEMENT": means this Agreement and all its Schedules and any supplements to this Agreement as the same may be amended, supplemented or modified from time to time;

"AIF": means that certain Agreement for Inventory Financing among IBM Credit Corporation and Holdings, IFP, SDI, PFS and PFSweb, as amended and supplemented from time to time;

"AMENDED AND RESTATED NOTES PAYABLE SUBORDINATION AGREEMENT" means the amended and restated notes payable subordination executed by SDI in favour of IBM GF in form and substance satisfactory to IBM GF in its sole discretion;

"APPROVED CURRENCY" means any currency other than euro agreed from time to time by you and us to be an approved

currency for the purposes of this Agreement;

"AUDITORS": means a nationally recognised firm of independent accountants acceptable to us;

"AUTHORISED OFFICER": means those individuals occupying the positions listed in Attachment A to this Agreement and who are authorised by you to provide the instructions, authorisations, agreements, etc. as specified in such Attachment A;

"AUTHORISED SUPPLIER": means any supplier, for the purposes of this Agreement, from whom we have agreed to purchase the Supplier Invoices generated by their sales of Products to you;

"AVAILABLE CREDIT": means from time to time the Credit Limit less the aggregate of:

- (i) the principal amount of Supplier Obligations due and outstanding by you to us; and
- (ii) the aggregate amount of Prepayments made to you by us on account of the purchase price of IBM Reimbursables, IBM Receivables and VAT Receivables which are outstanding; and
- (iii) any other sum due and payable by you to us under the terms of this Agreement, including interest due and payable and outstanding Credit Charges;

"BASE RATE": means the rate so referred to in the Schedule;

"BSD": means Business Supplies Distributors, Inc.

"BSD A": means BSD Acquisition Corp., Inc., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074, now known as Supplies Distributors, Inc.;

"BSDE" means as defined in the caption;

"BSDE SUPPLIER INVOICES" means undisputed Supplier Invoices which were issued to BSDE prior to the Merger and which we will pay the applicable Authorised Supplier on your behalf;

"BUSINESS DAY": means (a) in relation to any payment or to a rate fixing, any day (other than a Saturday or Sunday) which is a TARGET DAY; (b) in relation to any other matter (e.g. notices) any day (other than a Saturday or Sunday) on which banks are open in Brussels;

"CLOSING DATE": MEANS __ MARCH 2002;

"COLLATERAL" means the aggregate value, in our assessment, of outstanding IBM Reimbursables, IBM Receivables and VAT Receivables we have purchased from you together with any Receivables Rights and any other assets, including stock-in-trade which are charged to us by way of a Lien and which is not subject to retention of title by any party other than us.

"COMMENCEMENT DATE": means the commencement date of this Agreement as specified in the Schedule;

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"CONGRESS": means Congress Financial Corporation (Southwest), a lender to SDI;

"CREDIT CHARGES": means our charges to you (as set out in the Schedule) for purchasing Supplier Invoices from an Authorised Supplier as set out in Section 3 of this

Agreement and purchasing IBM Reimbursables, IBM Receivables and VAT Receivables from you pursuant to Section 4 of this Agreement;

"CREDIT LIMIT": means the sum specified in the Schedule which is subject to change by us;

"DEBTOR": means a customer of yours pursuant to a Sales Contract who is indebted to you in respect of a Receivable;

"DEFAULT RATE" means the percentage as detailed as such in the Schedule;

"DISCOUNT CHARGE" means the charge to be calculated as described in Clause 5.3 at a rate specified in the Schedule or such other percentage as we may from time to time agree;

"DUE DATE" means the date that payment is due to us which is, unless otherwise agreed by us in writing (1) for Supplier Obligations, the last day of the No Charge Period or the Extended Credit Period as applicable (2) for Credit Charges, the date as specified on the billing statement (3) for Shortfall Amounts, as specified in Clause 7.4 and (4) for Discount Charges, the date specified on the billing statement if there is insufficient Available Credit at the time such Discount Charges are normally credited by us against your account;

"ELIGIBLE RECEIVABLE": means an IBM Receivable or VAT Receivable which is not (or does not become) an Ineligible Receivable;

"EQUITY INTERESTS": means with respect to any Person, means (a) all shares, interests, participations, rights or other equivalents (however designated, whether voting or non-voting) of or interests in corporate or capital stock, including, without limitation, shares of preferred or preference stock of such Person, (b) all partnership interests (whether general or limited) of such Person, (c) all membership interests or limited liability company interests in such Person, (d) all other equity or ownership interests in such Person of any other type and (e) all warrants, rights or options to purchase any of the foregoing.

"EFFECTIVE DATE": means that date on which Fortis, to IBM GF's satisfaction pays IBM GF the full amount owed by you to us for all Receivables except IBM Receivables. Such date shall be confirmed in writing immediately after the event.

"EVENT OF DEFAULT": means any of the events set out in Clause 9.1 of this Agreement;

"EXTENDED CREDIT CHARGE" means the charge (if any) as specified in the Schedule incurred for outstanding Supplier Obligations during an Extended Credit Period or such other charge as we may from time to time agree;

"EXTENDED CREDIT PERIOD" means (if agreed by us) the period specified in the Schedule following immediately after the No Charge Period and extending the time for payment by you of Supplier Obligations;

"FINANCIAL STATEMENTS": means your balance sheets, statements of account including profit and loss accounts, and statements of cash flows prepared in accordance with generally accepted accounting principles;

"FORTIS" means as defined in the second "Whereas" clause hereof;

"GAAP" means the generally accepted accounting principles in the United States as in effect from time to time;

"GUARANTOR": means Holdings, PFS, PFSweb and SDI and any

other party that delivers a guaranty in favour of us;

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"HOLDINGS": means Business Supplies Distributors Holdings, LLC, a limited liability company duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074

"IBM": means International Business Machines Corporation;

"IBM CREDIT": means IBM Credit Corporation, a Delaware corporation with a place of business at 4000 Executive Parkway, Third Floor, San Ramon, CA 94583;

"IBM RECEIVABLE": means a Receivable payable by IBM, an IBM Subsidiary or an IBM Affiliate provided that we have received evidence satisfactory to it that IBM has waived its right to setoff such amounts owed to you with any amount you may owe to IBM;

"IBM REIMBURSABLES": means amounts reimbursable from IBM, an IBM Subsidiary or IBM Affiliate, arising from incentive payments, rebates invoiced on a monthly basis, discounts, credits, and refunds in each case owed by IBM to you provided that (i) you obtain (and provide to IBM GF along with the monthly collateral reports required under this Agreement) from IBM written confirmation (a) acknowledging the obligation of IBM to pay such amount, (b) stating the date the amount is due to be paid and (c) IBM waiving its right to setoff such amounts owed to you with any amount you may owe to IBM; (ii) such IBM Reimbursables do not remain unpaid for more than sixty (60) days from the date the obligation of IBM occurred; and (iii) such IBM Reimbursables delivered to us directly by IBM in the form of a Credit Note or some other form acceptable to us.";

"IBM SINGAPORE": means IBM Singapore, Global Procurement Services Group - Singapore Trading Center

"IBM US": means the Printing Systems Division of IBM facilities located in the United States of America;

"IFP" means Inventory Financing partners, LLC, a US limited liability corporation;

"INELIGIBLE RECEIVABLE": means any of the following: (i) any IBM Receivable or VAT Receivable which remains unpaid for more than 120 days after the date of the relevant Sales Invoice or VAT Return Document; (ii) all IBM Receivables and VAT Receivables of an individual Debtor where 50% or more of the relevant Debtor's aggregate outstanding balance remains unpaid for more than 120 days after the date of their respective Sales Invoice or VAT Return Document; (iii) any IBM Receivable or VAT Receivable in respect of which there is a breach of any undertaking or warranty given to us, or any other obligation of yours relating to it; (iv) any IBM Receivable or VAT Receivable expressed in a currency other than the EURO or another currency approved by us; (v) those receivables, if any, listed in the Schedule as Ineligible Receivables; (vi) any receivable which is not an IBM Receivable or a VAT Receivable and (vii) any IBM Receivable or VAT Receivable which we deem, in our discretion, to be ineligible except that, in the event we determine in our sole discretion to deem certain IBM Receivables and/or VAT Receivables to be ineligible pursuant to this sub clause (vii), we will provide written notification to you of our determination of ineligibility of such IBM Receivables and/or VAT Receivables and such ineligibility shall be applied to such IBM Receivables and/or VAT Receivables arising from invoices dated one Business Day after the date of such notification.;

"INSOLVENCY": in relation to a company means the convening of a meeting to pass a resolution for voluntary winding up by reason of insolvency, or the making of a winding up order, or the issue of an application for the appointment of an administrator, or the appointment of a receiver (whether in or out of court) or an administrative receiver of any of the assets or income of the company; or entry by that company into a voluntary arrangement, or any informal arrangement generally for the benefit of creditors or that company consulting with creditors generally; or any material part of income or assets being subject to seizure, distress or lien; or enforcement of security rights; or compounding with creditors; or ceasing to carry on business (and "INSOLVENT" shall be construed accordingly);

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"LIEN(s)": means any mortgage, pledge, lien, charge, assignment by way of security, hypothecation, security interest and floating charge or any other security agreement or arrangement relating to existing or future assets (including, without limitation, the deposit of monies or property with a person with the primary intention of affording such person a right of set-off or lien) but excluding any lien arising out of rights of consolidation, combination, netting or set-off over any current and/or deposit accounts with a bank or financial institution, where it is necessary to agree to those rights in connection with the opening or operation of any bank accounts or in connection with a treasury management arrangement operated by you, in each case, in the ordinary course of your business or risk management provided the existence of such lien has been notified to us;

"LOAN PARTIES": means as defined in the caption.

"MATERIAL ADVERSE EFFECT": means a significant adverse effect on (1) any Loan Party, or your parent company's or any of its subsidiaries' or any guarantor's business operations, results of operations, assets, or financial condition; or (2) the value of the Collateral or (3) our rights and remedies under this Agreement or the Security Documents or any Liens in our favour;

"MERGER" means the event documented in, and achieved as a result of the execution of, the Merger Documents;

"MERGER DOCUMENTS": means the (i) Agreement and Plan of Merger and Reorganization among SDI and BSD dated September 26, 2001 and (ii) the Certificate of Merger of BSD with and into BSD A dated September 26, 2001;

"NO CHARGE PERIOD": means the period, if any, so described in the Schedule, during which we will not charge you Credit Charges in relation to each Supplier Obligation, which period shall commence on the date of the Supplier Invoice corresponding to each such Supplier Obligation;

"NOTIFICATION": means your confirmation to us, in such way and with such evidence as we specify, of all IBM Reimbursables, IBM Receivables and VAT Receivables which have come into existence after the Commencement Date, but which have not previously been Notified to us;

"NOTIFY"/"NOTIFIED"/"NOTIFYING": means inclusion of an IBM Reimbursable, an IBM Receivable or VAT Receivable or a credit in an Offer or Notification delivered to us;

"OBLIGATIONS": means all covenants, agreements, warranties, duties, representations, loans, advances, interest (including interest accruing on or after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to

any Loan Party, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), fees, reasonable expenses, indemnities, liabilities and Indebtedness of any kind and nature whatsoever now or hereafter arising, owing, due or payable from any Loan Party to IBM GF.

"OFFER": means an unconditional offer to sell an IBM Reimbursable, IBM Receivable or VAT Receivable to us with full title guarantee to be made in such way and with such evidence of the performance of the IBM written confirmation, the Sales Contract or the VAT Return Document, as the case may be, as we may specify, and where more than one IBM Reimbursable, IBM Receivable or VAT Receivable is at the same time subject to an Offer it shall be treated as an independent offer to sell us each IBM Reimbursable, IBM Receivable or VAT Receivable so offered which may be accepted or rejected by us entirely at our discretion;

"PERSON": means any individual, association, firm, corporation, partnership, trust, unincorporated organization or other entity whatsoever.

"PFS": means Priority Fulfillment Services, Inc., a US corporation;

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"PFSWEB": means PFSweb, Inc., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074

"PFS WEB B.V." means as defined in the caption;

"PREPAYMENT": means any payment by us to you or made available to you under this Agreement on account of the purchase price of an IBM Reimbursable, IBM Receivable or VAT Receivable;

"PREPAYMENT PERCENTAGE": means the amount specified as such in the Schedule or such other percentage as we may from time to time agree;

"PRODUCT RIGHTS" includes in relation to the Products supplied to you by an Authorised Supplier any of the following:

- (i) all the Authorised Supplier's rights as unpaid vendor and all other rights of the Authorised Supplier under or in relation to the relevant Supplier Invoice (whether such rights arise from or are created by statute, common law, contract or otherwise howsoever);
- (ii) documentary evidence of the Supplier Invoice or its performance or of any disputes arising;
- (iii) documents of title, warehouse keepers receipts, bills of lading, shipping documents, airway bills or similar documents;
- (iv) the benefit of all insurances;
- (v) all remittances, instruments, securities, bonds, guarantees and indemnities and accounting records;

"PRODUCTS": as the context permits means either: (i) hardware and software and associated products and services agreed by us and acquired by you from an Authorised Supplier; or (ii) hardware and software and associated products and services supplied by you to Debtors;

"PURCHASE PRICE": means the amount payable by us to you (i) in respect of the purchase of an IBM Reimbursable being the amount reflected on IBM's written confirmation for such IBM Reimbursable, (ii) in respect of the purchase of an IBM Receivable being the Sales Invoice price in relation to such IBM Receivable, or (iii) in the case of a VAT Receivable, the amount stated in the relevant VAT Return Document for such VAT Receivable, as the case may be, less any other sums due to us in respect of the purchase of such IBM Reimbursable, IBM Receivable or VAT Receivable;

"RECEIVABLE": means any payment obligation (present, future or contingent) of a Debtor pursuant to a Sales Contract (including the future right to recover sums due following the determination, assessment or agreement of the amount of such obligation), including any applicable value added taxes, duties, charges and interest (whether arising by contract or by law) together with its Receivables Rights;

"RECEIVABLES RIGHTS": includes in relation to any IBM Reimbursable, IBM Receivable or VAT Receivable any of your following rights: all remittances, instruments, securities, bonds, guarantees and indemnities and accounting records; any assets and any guarantee(s) which constitute security in respect of your obligations to us with respect to the purchase of IBM Reimbursables, IBM Receivables and VAT Receivables by us pursuant to this Agreement as set out in the Schedule);

"REPURCHASE": means the repurchase by you of an IBM Reimbursable, IBM Receivable or VAT Receivable at its Repurchase Price;

"REPURCHASE PRICE": means a sum equivalent to the Purchase Price of an IBM Reimbursable, IBM Receivable or VAT Receivable plus all sums (if any) then

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outstanding and due to us in respect of any relevant Credit Charges relating to that IBM Reimbursable, IBM Receivable or VAT Receivable;

"SALES CONTRACT": means a contract under which you sell Products to Debtors;

"SALES INVOICE": means a valid invoice issued by you to a Debtor under a Sales Contract;

"SCHEDULE": means the Schedule to this Agreement as amended from time to time by written agreement between the parties;

"SDI": means Supplies Distributors, Inc., (formally known as BSD Acquisition Corp.) a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074;

"SDSA" means as defined in the caption;

"SHORTFALL AMOUNT": means the amount set out in Clause 7.4;

"SHORTFALL FEE" means the fee calculated as detailed in the Schedule;

"SUBSIDIARY" means an entity of which a person has direct or indirect control or owns directly or indirectly more than 50% of the share capital or similar right of ownership and "control" for this purpose means the power to direct the management and the policies of the entity whether through the ownership of share capital, contract or otherwise;

"SUPPLIER INVOICE": means a valid invoice issued by an

Authorised Supplier in respect of your acquisition of Products from such Authorised Supplier;

"SUPPLIER OBLIGATIONS": means the amount owing by you in respect of a Supplier Invoice that we have purchased from an Authorised Supplier and a BSDE Supplier Invoice (including the future right to recover sums due following the determination, assessment or agreement of the amount of such obligation), including any applicable value added taxes, duties, charges and interest (whether arising by contract or by law).

"VAT" means value added tax levied by the appropriate authorities in a country;

"VAT RECEIVABLES" means a payment obligation of the Country of the Netherlands or Belgium pursuant to a VAT Return Document, subject to the limitation specified in the Schedule;

"VAT RETURN DOCUMENT" means a document raised by SDSA or BSDE to the respective country for valid reimbursement of VAT paid by BSDE or SDSA to the Country of the Netherlands or Belgium (1) for products purchased from IBM or one of its subsidiaries and which products were sold by BSDE to customers outside the Country of the Netherlands or (2) for products purchased from IBM or one of its subsidiaries and which products were sold by SDSA to customers outside the Belgium, (3) for products sold by BSDE to SDSA, (4) for products supplied by IBM Singapore and IBM US to SDSA and (5) for the operating and sales expenses paid by SDSA in the Country of Belgium;

1.2 INTERPRETATION

In this Agreement:

- 1.2.1 "YOU" and "US" shall where the context admits, include our respective personal representatives, successors in title or permitted assigns (whether immediate or derivative);
- 1.2.2 any reference herein to any document, including to this Agreement includes such document as amended, novated, supplemented, substituted, extended, assigned or replaced from time to time and includes any document which is supplemental hereto or thereto;
- 1.2.3 where a word or phrase has to be considered in relation to a jurisdiction outside Belgium and there is no exact equivalent or such work or phrase then it shall have the meaning of the closest equivalent in such jurisdiction; and
- 1.2.4 "INDEBTEDNESS" includes any obligation (whether incurred as principal guarantor or surety) for the payment or repayment of money, whether present or future, actual or contingent.

The headings in this Agreement are inserted for convenience only and shall not affect its construction or interpretation.

2. CREDIT LIMIT

- 2.1 We will establish a Credit Limit for you up to the amount specified in the Schedule which we may, at our discretion, purchase Supplier Invoices from Authorised Suppliers IBM Reimbursables, IBM Receivables and/or VAT Receivables from you.

3. SUPPLIER PURCHASE FACILITY

3.1 SETTLEMENT OF SUPPLIER INVOICES

- 3.1.1 By entering into this Agreement you agree that you will pay us, and not the Authorised Supplier, in order to settle (i) Supplier Invoices which we have purchased and (ii) BSDE Supplier Invoices.
- 3.1.2 We may, in our discretion and upon written notice to you, cease to include a supplier as an Authorised Supplier for the purposes of this Agreement. Any such cessation will not affect our purchase of Supplier Invoices then in existence or our obligation to pay BSDE Supplier Invoices.
- 3.1.3 You authorise us to collect directly from any Authorised Supplier any monies due for credits, rebates, bonuses or discounts owed by such Authorised Supplier to you. Once received we shall either (in our discretion) apply such monies against amounts you owe us or credit the relevant amount to your ledger account with us and pay such monies into the bank account referred to in Clause 6.7.1.
- 3.1.4 You shall pay us for a Supplier Obligation no later than the Due Date. You agree to pay us the full amount of such Supplier Obligation.
- 3.1.5 If an Extended Credit Period is provided (as specified in the Schedule) payment of the relevant Supplier Obligation may be deferred for such further period as is specified in the Schedule after the end of the No Charge Period but such Supplier Obligation shall bear interest at the rate specified in the Schedule during such period.
- 3.1.6 If you do not pay the Supplier Obligations before the last day of the No Charge Period (or, if clause 3.1.5 applies, at the end of the Extended Credit Period), such sum shall bear interest at the Default Rate from the expiry of the No Charge Period (unless the Extended Credit Period is applicable) until actual receipt of such payment by us in cleared funds.

3.2 TITLE TO PRODUCTS

- 3.2.1 You hereby acknowledge that by virtue of our purchase from the relevant Authorised Supplier of the Supplier Invoices or, as applicable, our agreement to pay the BSDE Supplier Invoices on your behalf, all Product Rights, including any reservation of title rights, belong to us until all amounts owing to us in connection with payment of the relevant Supplier Obligations and any outstanding Credit Charges are paid in full by you.
- 3.2.2 You will not cause or permit any Debtor or other third party to encumber our Product Rights in any way. You agree to take such action as may be required to implement this provision, including your acknowledgement of, and agreement to the insertion of written notice in Sales Invoices or, as

relevant Product Rights.

4. IBM REIMBURSABLES, IBM RECEIVABLES AND VAT RECEIVABLES DISCOUNTING FACILITY

Under the terms of this Agreement, we may from time to time purchase IBM Reimbursables, IBM Receivables and VAT Receivables from you.

4.1 PURCHASE AND PAYMENT OF IBM REIMBURSABLES, IBM RECEIVABLES AND VAT RECEIVABLES

4.1.1

4.1.2 You hereby agree to transfer ownership to us of all IBM Reimbursables, IBM Receivables and VAT Receivables (together with all Receivables Rights) created until this Agreement ends, or we give you notice under Clause 4.1.12 that no more IBM Reimbursables, IBM Receivables and VAT Receivables will be accepted from a date designated by us. Such IBM Reimbursables, IBM Receivables and VAT Receivables shall vest in us the moment the IBM Reimbursables, IBM Receivables and VAT Receivables are created and transfer of ownership of any such IBM Reimbursables, IBM Receivables and VAT Receivables to us shall take place automatically and with immediate effect. On that day our receipt of the relevant Notifications and our ownership of such IBM Reimbursables, IBM Receivables and VAT Receivables shall then be complete. We will credit to your ledger account with us the Purchase Price of all such IBM Reimbursables, IBM Receivables and VAT Receivables upon such date.

4.1.3 You will pay any duties or similar charges including any Stamp Duty arising in connection with this Agreement and the transfer of the IBM Reimbursables, IBM Receivables and VAT Receivables to us.

4.1.4 After the Commencement Date, PFS Web B.V., BSDE and/or SDSA will notify us in the manner agreed with us, and at the frequency stated in the Schedule of the invoice value of IBM Reimbursables, IBM Receivables and VAT Receivables. PFS Web B.V., BSDE and SDSA will provide on request copies of the relevant documentation, delivery notes, and other evidence of the validity of the IBM Reimbursables, IBM Receivables and VAT Receivables. There will be either be a service fee for each Notification subject to a minimum service fee payable in accordance with Clause 7.2.1, or a monthly service fee, as set out in the Schedule which you agree to pay to us. The Loan Parties will promptly when required by us complete any forms of assignment, documents or other instruments necessary to ensure the transfer of full ownership of the IBM Reimbursables, IBM Receivables and VAT Receivables to us or to enable us to collect the IBM Reimbursables, IBM Receivables and VAT Receivables.

4.1.5 If, for any reason, the sale or transfer of IBM Reimbursables, IBM Receivables and VAT Receivables, pursuant to the above provisions of this Agreement, does not vest ownership of the IBM Reimbursables, IBM Receivables and VAT Receivables in us, the Loan Parties will hold any such IBM Reimbursables, IBM Receivables and VAT Receivables and any monies collected by them in respect of such IBM Reimbursables, IBM Receivables and VAT Receivables in trust for us, and pay any such monies to us.

- 4.1.6 We may use the monies we receive in respect of each IBM Reimbursable, IBM Receivable or VAT Receivable to satisfy any monies then owing to us by you. We will transfer any remaining amount to your designated bank account (provided there is no Event of Default) at the frequency agreed with you subject to the banking charge specified in the Schedule.
- 4.1.7 As the absolute owner we have the sole and unfettered right to enforce payment of and collect any IBM Reimbursable, IBM Receivable or VAT

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Receivable purchased by us under this Agreement. However until further notice from us the Loan Parties will act diligently and promptly as our undisclosed agent in administering and in collecting and enforcing payment of IBM Reimbursables, IBM Receivables and VAT Receivables at the Loan Parties expense. However if (a) we consider that your continued collection of any IBM Reimbursables, IBM Receivables and VAT Receivables would be prejudicial to us, and that such collection would be better conducted by us or a third party, rather than by the Loan Parties; or (b) an Event of Default has occurred; or (c) this Agreement has terminated for whatever reason; or (d) there has occurred (in our reasonable opinion) a Material Adverse Effect, we reserve the right to, or designate a third party to, collect payment directly including issuing demands or legal proceedings either in our own name or in your name if required. The Loan Parties agree to co-operate in such collection or proceedings, including the provision of witnesses or the production of documents. We can defend or compromise such legal proceedings in such manner and on such terms as we may see fit and the Loan Parties will be bound by the result. Any reasonable expenses incurred by us in such proceedings, including the payment of legal and other professional fees, costs and expenses, will be paid by you, or charged to you by debiting the relevant accounts. Whilst the Loan Parties may ask us to cease collection activities against any Debtor and we will do so upon receiving payment of the relevant IBM Reimbursables, IBM Receivables and VAT Receivables or upon such terms as we shall agree with the applicable Loan Party we have the right to refuse or to accept such Loan Party's request.

- 4.1.8 The Loan Parties agree that without our prior written consent they will not sell, pledge or grant any Lien over any IBM Reimbursables, IBM Receivables and VAT Receivables to any third party, or agree to do so, or enter into any other arrangement which might adversely affect our interest in any IBM Reimbursables, IBM Receivables and VAT Receivables.
- 4.1.9 After you Notify an IBM Reimbursable, IBM Receivable or VAT Receivable to us you agree (save where Clause 6.6 applies) not to cancel or vary any relevant VAT Return Document or its relevant payment terms or settlement discounts without our prior written consent except where the change is due to a manifest error in your invoice, in which case you will notify us of the resulting change in the IBM Reimbursable, IBM Receivable or VAT Receivable but our written consent will not be required.

- 4.1.10 You undertake that if Products associated with IBM Receivables are returned to you and you provide a credit in any form which has the effect of reducing the amount of the relevant Receivable or Acquired Receivable, you will promptly notify us.
- 4.1.11 For each IBM Reimbursable, IBM Receivable and VAT Receivable you represent and warrant to us that: (a) all particulars notified to us are correct and complete; (b) the IBM Reimbursable, IBM Receivable or VAT Receivable has not been previously Notified to us; (c) any covenants or undertakings given to us relating to such IBM Reimbursable, IBM Receivable or VAT Receivable will be complied with; (d) each IBM Reimbursable, IBM Receivable or VAT Receivable is fully enforceable and is free from any other charge, pledge, or Lien in favour of a third party; and (e) such IBM Reimbursable, IBM Receivable or VAT Receivable will be paid without any claim for set off, counterclaims, retention or abatement.
- 4.1.12 The sale or transfer of IBM Reimbursables, IBM Receivables and VAT Receivables will continue until we notify You in writing that we will accept no more IBM Reimbursables, IBM Receivables and VAT Receivables for purchase or until the termination of this Agreement whichever is the sooner.

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4.2 CREDIT AND COLLECTION POLICY

The Loan Parties will comply in all material respects with the Loan Parties' credit and collection practices agreed with us in regard to each IBM Receivable VAT Receivable, any Receivables Rights and the related Sales Invoice or VAT Return Document.

5. PREPAYMENTS

- 5.1 We may, following your written or electronic request, make a Prepayment available to you in a bank account maintained by you, subject to any banking charge as set out in the Schedule, in the amount you select up to the Available Credit. We will endeavour to effect such Prepayment on the day you make such request provided we receive such request before 10.00 am on any Business Day.
- 5.2 If we make a Prepayment on a day upon which any settlement of a Supplier Obligation or Credit Charge is due or overdue for payment, or you owe us any monies for the Repurchase Price of IBM Reimbursables, IBM Receivables and VAT Receivables then we may apply the proceeds of the Prepayment to such payment in or towards the discharge of the monies so due to us and only an amount equal to the difference, if any, between the amount of the Prepayment and the amount being paid or so discharged shall be made available to you.
- 5.3 A Discount Charge will accrue from day to day during this Agreement and be calculated on the outstanding daily balance of all Prepayments .
- 5.4 You may at any time pay us for Supplier Obligations and any outstanding Credit Charges, by requesting us to apply all or part of any Prepayment for that purpose. Prepayments may not be used for the repayment of principal owing to us pursuant to any agreement between yourself as borrower and ourselves as lender unless expressly agreed by us in writing. In addition to payment for Supplier Obligations, Prepayments shall only be used for working capital purposes.

5.5 The total amount of Prepayments at any point in time shall not exceed the Collateral value attributed to the IBM Reimbursables, IBM Receivables and VAT Receivables at such time.

6. IBM REIMBURSABLES, IBM RECEIVABLES, VAT RECEIVABLES AND RECEIVABLES RIGHTS

6.1 You will provide us with your Receivables Rights and take any necessary steps to make such Receivables Rights effective and enforceable. If a Lien is to be provided to us in relation to any IBM Reimbursable, IBM Receivable or VAT Receivable and/or Receivable Right not effectively purchased hereunder it shall be a valid first priority interest.

6.2 The Loan Parties agree:-

6.2.1 to promptly execute and deliver such further instruments and documents, and to take such further action including any filing or payment of registration fees at the Loan Parties' expense as we may reasonably request for the purpose of preserving or protecting all our rights and interests in the IBM Reimbursables, IBM Receivables and VAT Receivables (and the Receivables Rights) and our ownership of the former and our rights in the latter;

6.2.2 report to us with the reports and accounts referred to in the Schedule at the intervals specified therein and to provide us with such other reports as may be agreed; and

6.2.3 to advise us promptly, in reasonably sufficient detail, of any substantial change relating to the value, quantity or quality of the IBM Reimbursables, IBM Receivables and VAT Receivables and the Receivables Rights, including any movement in location of the IBM Reimbursables, IBM Receivables and VAT Receivables and the Receivables Rights, or any event which could reasonably be expected to have a significant adverse effect on the value,

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quantity or quality of the IBM Reimbursables, IBM Receivables and VAT Receivables and the Receivables Rights; and

6.2.4 promptly advise us of any loss, destruction of or damage to the IBM Reimbursables, IBM Receivables and VAT Receivables or the Receivables Rights and to pay us such amount (if any) as will reduce the Credit Limit as specified by us in our absolute discretion, or provide such additional Collateral as we may require; and

6.2.5 to maintain books and records relating to the Collateral in such detail, form and scope as is consistent with good business practice and ensure, where applicable, such books and records will reflect our ownership of the IBM Reimbursables, IBM Receivables and VAT Receivables and our interest in the Receivables Rights.

6.3 NOTICE OF TRANSFER OF OWNERSHIP OF RECEIVABLES

If required by us, for each IBM Reimbursable, IBM Receivable and VAT Receivable, the Loan Parties will give written notice to the respective Authorized Supplier, Debtor or country government agency concerned that we are the owner of the IBM Reimbursable, IBM Receivable or VAT Receivable, as

applicable, and that payment of IBM Reimbursables, IBM Receivables and VAT Receivables must be made to us directly. The wording of the notice and the manner in which it is given will be as directed or approved by us. We may give such written notice to the relevant Authorized Supplier, Debtor or country government agency directly.

6.4 RECEIVABLES RIGHTS

- 6.4.1 The Loan Parties hereby acknowledge that all Receivables Rights belong to us until all amounts owing to us in connection with IBM Reimbursables, IBM Receivables and VAT Receivables and any outstanding Credit Charges are paid in full.
- 6.4.2 You will not cause and you will use your best endeavours not to permit any Debtor or other third party to acquire title in any Products the subject of Receivables or to encumber such title in any way before you have delivered the relevant Products and payment in full of the relevant Receivable has been made by such Debtor. You agree to take such action as may be required to implement this provision, including the insertion of appropriate clauses in Sales Contracts.

6.5 REPURCHASE

- 6.5.1 We may require you to buy back any IBM Reimbursable, IBM Receivable or VAT Receivable and pay us the Repurchase Price of such IBM Reimbursable, IBM Receivable or VAT Receivable as follows in any of the following situations: (i) if such IBM Reimbursable, IBM Receivable or VAT Receivable is or becomes an Ineligible Receivable; (ii) if it is the subject of a dispute; (iii) if payment is withheld for any reason including a dispute under the Sales Contract or, if applicable, the VAT Return Document or any claim to set-off or counterclaim; (iv) if the respective country declares or effects a change in its laws, or if there is a change in its financial condition, which has the effect of making its payment of the VAT Receivable delayed or uncertain (v) at any time on or after any Event of Default; or (vi) at any time after termination of this Agreement. We will either debit your account with the Repurchase Price if the account is sufficiently in credit, or if not then we will require the applicable Loan Party to make a cash payment of the Repurchase Price in which case such Loan Party will promptly make such payment to us. On receipt of payment in full of the Repurchase Price of each IBM Reimbursable, IBM Receivable and VAT Receivable which we require a Loan Party buy back together with all other sums due from it to us, we will upon request assign or transfer that IBM Reimbursable, IBM Receivable or VAT Receivable to you and it will pay the reasonable costs incurred by us

including any duly documented and properly incurred legal costs or other professional expenses, stamp duties, VAT, and similar charges. Any amounts such Loan Party collects before we receive payment in full will be held in trust for us and promptly delivered to us and set against the amounts owed to us and any amounts we collect after payment in full to us will be credited to your account.

6.5.2 You will not cancel any notices of assignment given to a Debtor or country, as applicable, owing IBM Reimbursables, IBM Receivables and VAT Receivables which we have required you to buy back or attempt to collect such IBM Reimbursables, IBM Receivables and VAT Receivables for your own account until you have paid us, in cleared funds, the Repurchase Price and all other amounts due to us in respect of it.

6.6 CREDITS AND CLAIMS

6.6.1 If any query or claim shall arise concerning or affecting an IBM Reimbursable, IBM Receivable or VAT Receivable or concerning a credit or set-off by the respective Authorised Supplier, Debtor or country against the Supplier Invoice, Sales Invoice or VAT Return Document, the applicable Loan Party will, after complying with Clause 4.1.10, (i) immediately give full details in the form we require; (ii) use all reasonable efforts to resolve the query or claim; and (iii) notify us of any resulting credit note or other settlement.

6.6.2 If the query or claim affects the value to us of the IBM Receivable or VAT Receivable, it may be treated by us as being an Ineligible Receivable.

6.7 BANK ACCOUNT

6.7.1 We will tell you the form of assignment to be included on the Sales Invoice relating to an IBM Receivable and/or VAT Return Document. You will instruct the respective Authorised Supplier, Debtor or country government agency to pay the amounts of the credit, Sales Invoice or VAT Return Document to a bank account controlled by us and the Loan Parties must do nothing to prevent payment to us.

6.7.2 If payments are to be made to a bank account in your name but controlled by us you will enter into agreements satisfactory to us, enabling the bank account to be administered so that we have control over all withdrawals from the bank account. Any payments collected by the Loan Parties in relation to IBM Reimbursables, IBM Receivables and VAT Receivables shall be held in trust for us and promptly deposited in the bank account without being mixed with the Loan Parties' own funds or negotiated except in our favour. You will pay all costs and expenses of setting up and operating bank accounts for this purpose, including all charges relating to the collection or attempted collection of cheques or other instruments of payment.

7. CREDIT CHARGES AND PAYMENTS

7.1 INFORMATION ABOUT YOUR ACCOUNT

We will provide you with information concerning Supplier Obligations and Prepayments, including amounts due to us and on request the then amount of the Available Credit. Such information shall be treated as being correct and binding upon you in the absence of manifest error provided that such manifest error is notified to us within a period of 15 days from the date of the provision of such information to you. We will keep such accounts as may be required to show the amounts due to us and the amounts received from you and/or your Debtors. In any proceedings or disputes a certificate issued by our Company Secretary, or by one of our Directors or authorised officers as to the correctness of any financial statement or any amounts due to us shall be prima facie evidence of the same.

7.2 CREDIT CHARGES

- 7.2.1 The Credit Charges payable by you are set out in the Schedule. They are set out exclusive of VAT and any other taxes and duties which, if applicable, will be additionally payable by you. You will receive an invoice or relevant statement for all Credit Charges including any applicable VAT stamp or other duties and will either be debited to your account on a monthly basis or paid to us on demand. Any minimum amounts payable by you will be debited to your account periodically as set out in the Schedule. Some Credit Charges will fluctuate up or down depending on changes to the Base Rate as described in Clause 7.2.3.
- 7.2.2 If we purchase a Supplier Invoice that does not include a "No Charge Period", any Supplier Obligations thereunder will be subject to a set up fee as specified in the Schedule (or as agreed with you) and Credit Charges will be levied on you from and including the date of issue of the relevant Supplier Invoice. You agree to pay such Credit Charges or set up fee on their due date together with payment of the relevant Supplier Obligations.
- 7.2.3 Where a Credit Charge is related to Base Rate and the outside reference rate upon which Base Rate is based at any time changes then, on the first business day of the next following calendar month, the Base Rate will be changed to the outside reference rate existing on the last business day of the previous calendar month. However, if the outside reference rate changes by 25 basis points or more at any time then the Base Rate will be changed by the same amount on the day of such change or the next following business day. When the applicable Base Rate is determined by reference to another published rate and that rate ceases to be published for any reason, we will use another appropriate rate as the reference rate so that you and we remain in an equivalent financial position.

7.3 PAYMENT

- 7.3.1 The Loan parties agree to pay, or cause you to pay, all sums due to us arising from the settlement of Supplier Obligations and the Repurchase Price of IBM Reimbursables, IBM Receivables and VAT Receivables and all Credit Charges owed to us and applicable VAT, stamp or other duties by direct debit, wire transfer, or such other method of payment that we agree, in full, without any set off whatsoever. Payment shall be deemed to be made when such payment is received in cleared funds in the designated bank account in our name or controlled by us. The Loan Parties may at any time prepay, without notice or penalty, in whole or in part, amounts owed to us under this Agreement. We may apply payments made to us (whether by you or otherwise) firstly to pay any Credit Charges owing under this Agreement and then the amount owing in respect of each Supplier Obligation, and/or the Repurchase of IBM Reimbursables, IBM Receivables and VAT Receivables. Late payment will be subject to a late payment charge on the sums unpaid at the Default Rate from the date following the Due Date

until and including the date payment is received by us in cleared funds in our account

7.3.2 Your obligations to pay sums due in respect of Supplier Obligations to us or any Repurchase Price of IBM Reimbursables, IBM Receivables and VAT Receivables will not be affected by any dispute you may have with any Authorised Supplier, including defective, insufficient, late or partly delivered Products. You waive all rights of set-off or counterclaim against your liability to pay Supplier Obligations. However, this does not affect any claim or right or remedy you may have against the Authorised Supplier. You will not assert against us any claim or defence you may have against the Authorised Supplier or any third party. We have no obligation to you under the Supplier Invoice. The Loan Parties will indemnify and hold us harmless against any claims or liabilities arising from the Products in any way whatsoever.

7.3.3 When Products are returned by you to an Authorised Supplier it will not affect the amounts due to us, except for IBM Reimbursables, unless and until we

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receive the amount of a credit note from the applicable Authorised Supplier relative to the returned Products and which we shall promptly upon receipt apply it to your account. Such credit note amount will be deducted from the amounts due by you to us.

7.4 SHORTFALL AMOUNT

If, on any day, (i) the aggregate of the amounts outstanding from the Loan Parties to us in respect of Supplier Obligations and the outstanding and unpaid Prepayments we have made in respect of IBM Reimbursables, IBM Receivables and VAT Receivables by the relevant Debtor exceed the lesser of either the value of the Collateral or the Credit Limit, or (ii) the outstanding Prepayments exceed the Collateral value of the IBM Reimbursables, IBM Receivables and VAT Receivables, then, unless otherwise agreed, the Loan Parties will pay such "SHORTFALL AMOUNTS" on the day this becomes known to you either by our advising you or from your own enquiries. Until this is done, we shall be under no obligation to purchase Supplier Invoices from Authorised Suppliers or IBM Reimbursables, IBM Receivables and VAT Receivables from you (whether or not previously agreed) and you will pay a late payment charge at the Default Rate set out in the Schedule on the shortfall amounts accruing from day to day. In addition we may charge the Shortfall Fee if the Shortfall Amounts are not paid when due.

7.5 POWER OF ATTORNEY

As security for your obligation hereunder the Loan Parties grant us, our directors and officers an irrevocable power of attorney:-

- (i) to endorse or negotiate cheques, or bankers drafts and negotiable instruments;
- (ii) to initiate and settle any claims (including the conduct of legal proceedings); and
- (iii) to sign or execute any deeds, papers, forms or documents and file the same as may be necessary to perfect or preserve any of our rights or to secure performance of your obligations to us or any

Debtor with respect to the Collateral and ownership of the IBM Reimbursables, IBM Receivables and VAT Receivables.

8. REPRESENTATIONS, WARRANTIES AND COVENANTS

8.1 REPRESENTATIONS AND WARRANTIES

By signing the Agreement and (in relation to Clauses 3 and 4) before each Supplier Invoice or IBM Reimbursable, IBM Receivable or VAT Receivable is purchased or Prepayment is made you represent and warrant (or are deemed to represent and warrant) to us as follows:

8.1.1 VALIDITY

Each of the Loan Parties, your parent company, and each of its subsidiaries is duly organised, is validly existing and has the full power, authority and legal right, including compliance with any governmental and other consents, licenses and authorisations, to conduct its business and to enter into this Agreement. This Agreement and any Liens or other documents provided in relation to the IBM Reimbursables, IBM Receivables and VAT Receivables and the Receivables Rights and the Products and the Product Rights are legal, valid and binding obligations upon you and do not contravene any other agreement or obligation.

8.1.2 ACTIONS, PROCEEDINGS

No significant or material judgements, orders, writs or decrees are outstanding against any Loan Party nor is there pending nor, to the best of the Loan Parties' knowledge after due inquiry, threatened, any material litigation,

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contested claim, investigation, arbitration, or taxation or governmental proceeding by or against a Loan Party, nor is any Loan Party in default of, nor engaged in, any significant or material dispute under any agreement or document. If any dispute does arise such Loan Party undertakes to inform us and promptly resolve it.

8.1.3 INFORMATION

Each Loan Party has disclosed to us every fact or matter known or which should reasonably have been known to it that might influence us whether or not to enter into this Agreement, or purchase any Supplier Invoice or IBM Reimbursable, IBM Receivable or VAT Receivable or make any Prepayment, or to accept any Product Rights and/or Receivables Rights, or to accept any guarantee or indemnity, and that all information furnished by each Loan Party or on its behalf to us or by its Auditors in connection with this Agreement and the Products and Product Rights, IBM Reimbursables, IBM Receivables and VAT Receivables and the Receivables Rights is true and accurate in all material respects and is neither misleading nor incomplete by the omission of any material fact and has not changed since being provided to us.

8.2 COVENANTS AND UNDERTAKINGS

Until termination of this Agreement and the complete payment and satisfaction of all obligations under this Agreement, each Loan Party

agrees as follows:

8.2.1 MERGER, CONSOLIDATION AND SALES

(a) If any Loan Party plans to merge or consolidate with any other entity (other than the planned purchase of the assets of BSDE by SDSA and the dissolution of BSDE), or engage in any operation or activity materially different from that presently being conducted by it, or otherwise intend to dispose of any substantial part of its business, or the IBM Reimbursables, IBM Receivables and VAT Receivables or the Receivables Rights or the Products or the Product Rights or engage in a significant corporate restructuring in ownership, then such Loan Party will:

(i) disclose these facts to us as early as possible (and if subject to a confidentiality undertaking in relation to these matters, will use best endeavours to obtain the consent of the counterparty thereto), and

(ii) reach agreement with us concerning all remaining payment obligations under this Agreement or, failing such agreement, and if so required by us, immediately discharge such payment obligations (whether or not accrued due and payable). For this purpose (i) all Supplier Obligations shall forthwith become payable, (ii) all IBM Reimbursables, IBM Receivables and VAT Receivables shall be treated as Ineligible Receivables to be re-purchased by such Loan Party and (iii) all IBM Reimbursables will be considered ineligible for purchase by us, to be re-purchased by such Loan Party. No Loan Party will be required to make such disclosure if, and for so long as, to do so would be a breach of applicable laws or regulatory requirements. Any disclosure under this sub-clause shall be treated in confidence by us.

8.2.2 FINANCIAL STATEMENTS AND OTHER INFORMATION

SDSA will give us a copy of its audited Financial Statements and management accounts prepared in accordance with generally accepted accounting principles, whether audited or not, as provided in the Schedule. SDSA and BSDE will also provide such other information as we may reasonably request concerning VAT Return Documents. Each Loan Party will

promptly advise us if any material action or proceeding is outstanding or pending against or if, to the best of its knowledge after due enquiry, any such action or proceeding becomes threatened.

8.2.3 AUTHORISATION

We can rely upon the signature or the act or communication from Authorised Officers and Directors in accordance with Attachment A to this Agreement.

8.2.4 INSPECTION

Each of the Loan Parties will allow us or our agents to enter upon its premises during normal business hours on reasonable notice, and at any time during the continuance of an Event of Default, for the purposes of inspecting, taking copies of and/or verifying the Supplier Invoices and any Product Rights, the IBM Reimbursables, IBM Receivables and VAT Receivables, any Receivables Rights, Financial Statements, and its financial status; each Loan Party will agree to provide us with such information and documentation that we consider reasonably necessary to conduct the foregoing activities, including samplings of purchase orders, invoices and evidences of delivery or other performance, and that we may contact such Loan Party's customers or the respective country government agency directly or through our agents to verify IBM Reimbursables, IBM Receivables and VAT Receivables.

8.2.5 INSURANCE

8.2.5.1 Each Loan Party will maintain, or cause to be maintained, with financially sound and reputable insurance companies, insurance on its respective properties and assets (without being required to effect credit insurance on the IBM Reimbursables, IBM Receivables or VAT Receivables unless such obligation is specified in the Schedule) to their full insurable value; you will be required to maintain insurance against claims for personal injury or death as a result of the use of any Products sold by you; each Loan Party will be required to maintain insurance coverage against other business risks; each Loan Party will give us at least ten days written notice before any policy is altered or cancelled.

8.2.5.2 Each Loan Party will instruct each insurer to endorse and to assign the benefit of each insurance policy covering its properties and assets in respect of Supplier's Invoices or Receivables, and IBM Reimbursables, IBM Receivables and VAT Receivables which have been purchased by us hereunder so that (a) payment of proceeds with respect to claims thereon will be made directly to us and (b) no act or default of such Loan Party or any other person shall affect our right to recover under the policies.

8.2.5.3 If such Loan Party fails to pay any costs, charges or premiums, or if it fails to insure its properties and

assets, we may pay such costs, charges or premiums on such Loan Party's behalf. Any such amounts paid by us shall be considered as an additional debt owed by such Loan Party's due and payable by it or you immediately upon receipt of our invoice.

8.2.6 RIGHT OF SET-OFF

At all times we can set-off amounts due from you to us (including those prospectively due where they are likely to become payable) and whether due under this or any other agreement with us or otherwise due against whatever we owe you. Where the amount due by you cannot immediately be ascertained we may make a reasonable estimate of the amounts concerned.

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8.2.7 FINANCIAL COVENANTS

You agree to comply with the Financial Covenants, if any, set out in the relevant supplements or the Schedule. You also agree that you will not, without our consent, make any of the following payments ("Restricted Payments") if you and Holdings are not in compliance with the Financial Covenants contained in this Agreement and after giving effect of such payment, the aggregate amount of such Restricted Payments under this Agreement and the AIF does not cause you or Holdings to violate such Financial Covenants or exceed Six Hundred Thousand Dollars (\$600,000), without duplication, during any fiscal year (i) declare or pay any dividend (other than dividends payable solely in common stock of BSDE and/or SDSA) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of BSDE and/or SDSA or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of BSDE and/or SDSA ; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations)), except as permitted by the Amended and Restated Notes Payable Subordination Agreement.

8.2.8 DESIGNATED PAYMENT/WARRANTY COMPANY

Upon the occurrence of a Shortfall Amount which is not paid when due or if an Event of Default has occurred and is continuing, you agree, upon demand from us, to (i) send to your factoring bank, a designated payment in the form of Attachment B to this Agreement instructing such bank to pay us directly in lieu of paying you and (ii) within 30 days of such request, turn over the control of your stock to a licensed and warranty company satisfactory to us.

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9. DEFAULTS AND REMEDIES

9.1 DEFAULTS

Any one of the following events shall constitute an "EVENT OF DEFAULT" under this Agreement:

- 9.1.1 A Loan Party's failure to make payment to us when due of any amount, including without limitation Credit Charges or the Shortfall Amount or part thereof, under this Agreement or its failure to comply with any other provision of this Agreement including its failure to meet the dates by which information or reports are due under this Agreement;
- 9.1.2 Any representation, warranty, statement, report or certificate made or delivered by a Loan Party or on its behalf is false in any material respect at the time when made or deemed made;
- 9.1.3 The occurrence of any event or circumstance, including adverse comment in Auditors' reports for any Loan Party, which, in our opinion, could reasonably be expected by us to have a Material Adverse Effect;
- 9.1.4 A Loan Party, your parent company, any Subsidiary of a Loan Party or your parent company, or any of your guarantors becomes subject to Insolvency, or to a change of control due to change in shareholders unless previously agreed to by us in writing;
- 9.1.5 The use of any Prepayments or the incurring of any Supplier Obligations for any purpose other than your normal working capital requirements unless disclosed to us and agreed in writing before the Prepayment or Supplier Obligation is made;
- 9.1.6 Any default by any Loan Party in complying with any judgement or any demand under a guarantee or indemnity;
- 9.1.7 Any breach by any Loan Party, your parent company or any of your guarantors of any other agreement with us or with any other lender, including IBM Credit Corporation, Congress, Fortis, and any successors of Congress and/or Fortis or credit providers or suppliers (including Authorised Suppliers);
- 9.1.8 Any other actions materially adversely affecting our ownership of IBM Reimbursables, IBM Receivables and VAT Receivables or of Supplier Obligations or reducing our rights relating to Receivables Rights and/or Product Rights.
- 9.1.9 Any failure by PFSweb to meet the financial covenant specified for it in the Schedule.
- 9.1.10 The dissolution or liquidation of any Loan Party, your parent company, any of any Loan Party's or your parent's subsidiaries or any of your guarantors or the directors or stockholders of such entities taking action to dissolve or liquidate any such entity.
- 9.1.11 Any Loan Party, your parent company or any guarantor suspends business.
- 9.1.12 a) PFSweb ceases to directly own one hundred percent (100%) of the capital stock of PFS, and
(b) PFS and IFP cease to directly own One Hundred Percent (100%) of the interest in members of

Holdings or (b) Holdings ceases to directly own One Hundred Percent (100%) of the capital stock of SDI;

9.1.13 SDI ceases to maintain the extent of its current ownership of you.

9.2 REMEDIES

9.2.1 In addition to any rights or remedies available at law or under this Agreement, on or at any time after an Event of Default that we have not waived in writing, we may do any or all of the following:
(a) immediately terminate this

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Agreement; (b) immediately reduce the Credit Limit to nil (c) require you forthwith to buy back from us all outstanding IBM Reimbursables, IBM Receivables and VAT Receivables but so that no such IBM Reimbursable, IBM Receivable or VAT Receivable shall revert in you until the Repurchase Price of all such IBM Reimbursables, IBM Receivables and VAT Receivables has been paid to us together with all other sums then due to us; (d) declare all payments of Supplier Obligations and the Repurchase Price of IBM Reimbursables, IBM Receivables and VAT Receivables together with any Credit Charges to be immediately due and payable; and (e) to take any action we deem necessary to take possession of, realise or sell in a commercially reasonable manner any IBM Reimbursables, IBM Receivables and VAT Receivables or Receivables Rights, and/or Products and/or Product Rights and/or assets purchased with money provided by us.

9.2.2 Except as otherwise required by law or provided in any Lien which encumbers the relevant assets, all amounts obtained from any actions above will be applied promptly to reduce or settle the amounts due from you under this Agreement or any other deed or agreement between any of and all of the Loan Parties and IBM GF after deducting all charges, costs and expenses including reasonable legal costs, disbursements and other fees incurred in the collection of such amounts, and any excess amounts will, to the extent permitted by law and subject to the rights of any person having priority, be paid to you.

9.2.3 With respect to any Event of Default which we waive, we reserve the right to make a default charge as compensation for such waiver.

10. TERMINATION

10.1 This Agreement will remain in force until not less than 60 days written notice by any party to the other but not before twelve months has passed from the date of this Agreement. However following the occurrence of an Event of Default that we have not waived in writing we may by notice with immediate effect terminate this Agreement. Upon any termination of this Agreement we shall have all the rights and remedies set out in Clause 9.2 until the complete discharge of all the Loan Parties' obligations to us. Any such termination shall not affect any right we have in relation to the IBM Reimbursables, IBM Receivables and VAT Receivables or the Receivables Rights and the Supplier Obligations and the Product Rights.

10.2 Following the termination of this Agreement and the

discharge of all the Loan Parties' obligations to us and subject to the exercise of any rights under this Agreement then any amounts we hold for you will be paid to you after deduction of all or any sums then owed to us under this or any other agreement between any of and all of the Loan Parties and IBM GF.

10.3 Notwithstanding the termination of this Agreement, the provision of Clauses which should by their nature survive termination (including without limitation payment obligations and rights to IBM Reimbursables, IBM Receivables and VAT Receivables and the Supplier Obligations and the Product Rights and/or Receivables Rights) shall so survive and shall remain in full force and effect until such time as all rights and liabilities between the parties have been satisfied.

11. GENERAL

11.1 ASSIGNMENT

We may assign the benefit of this Agreement in whole or in part. The Loan Parties consent to us novating to any other person all or any of our obligations, rights, benefits and remedies under this Agreement. Following such novation this Agreement (or the novated part) shall bind and enure to the benefit of our successors and assigns. The Loan Parties may not assign or change their rights and benefits under this Agreement or sub-contract any of their obligations without our prior written consent.

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11.2 LIMITATION OF LIABILITY

No party shall have any liability to any other party with respect to any special, indirect or consequential damages suffered in connection with this Agreement.

11.3 GUARANTEE AND INDEMNIFICATION.

Each of BSDE, SDSA and the Guarantors (as a result of the respective Guarantees) irrevocably and unconditionally, jointly and severally:

11.3.1 guarantees to each of BSDE and SDSA the due and punctual observance and performance of all the terms, conditions and covenants on the part of each of them contained in this Agreement and agrees to pay from time to time on demand any and every sum or sums of money which each of BSDE and SDSA is at any time liable to pay to us under or pursuant to the Agreement and which has become due and payable but has not been paid at the time such demand is made; and

11.3.2 agrees to indemnify and hold harmless IBM GF and each of its officers, directors, agents and assigns (collectively, the "Indemnified Persons") against all losses, claims, damages, liabilities or other expenses (including reasonable attorneys' fees and court costs now or hereinafter arising from the enforcement of this Agreement, the "Losses") to which any of them may become subject insofar as such Losses arise out of or are based upon any event, circumstance or condition (a) occurring or existing on or before the date of this Agreement relating to any financing arrangements IBM GF may from time to time have with (i) each Loan Party, (ii) any Person that shall be acquired by any Loan Party or (iii) any Person that any Loan Party may acquire all or substantially all of the assets of, or (b)

directly or indirectly, relating to the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby or thereby or to any of the Collateral or to any act or omission of any Loan Party in connection therewith. Notwithstanding the foregoing, none of the Borrower or any of the Guarantors shall be obligated to indemnify IBM GF for any Losses incurred by IBM GF which are a result of IBM GF's gross negligence or wilful misconduct. The indemnity provided herein shall survive the termination of this Agreement.

11.4 WAIVER

No delay or omission of ours to exercise any right or remedy whether before or after the occurrence of any Event of Default, shall impair any such right or remedy or shall operate as a waiver thereof.

11.5 CHANGE OF TERMS

11.5.1 We may change the terms and conditions of this Agreement upon sixty days written notice to you, but no such change shall apply to purchases of Supplier Invoices or IBM Reimbursables, IBM Receivables and VAT Receivables made before the effective date of such change of terms.

11.5.2 We reserve the right to serve sixty days written notice on you designating some or all IBM Reimbursables, IBM Receivables and VAT Receivables as Ineligible Receivables and on the expiry of such notice you will promptly buy back the relevant Ineligible Receivables together with payment of any Credit Charges that apply.

11.5.3 In the case mentioned in paragraph 11.5.1 the Loan Parties shall be entitled to terminate this Agreement effective on the effective date of the change of terms by written notice delivered to us within thirty days of receipt of our notice of change of terms.

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11.6 TRANSACTION CURRENCY

All payments and billings under this Agreement will be in EURO or, if applicable, an Approved Currency

11.7 CURRENCY INDEMNITY

11.7.1 Unless otherwise agreed by us where an IBM Reimbursable, IBM Receivable or VAT Receivable is payable otherwise than in EURO in Belgium, the charges for both the collection and/or in the case of IBM Reimbursables, IBM Receivables and VAT Receivables not denominated in EURO, conversion into EURO or into such other currency as we shall from time to time determine, shall be deducted in calculating the Purchase Price and such price shall be computed by reference to the spot rate of exchange ruling in London the date of collection but at IBM GF's discretion, we may provisionally apply the rate ruling on the date we receive Notification of such IBM Reimbursable, IBM Receivable or VAT Receivable making such adjustments as shall thereafter be necessary

11.7.2 We hereby agree prior to the occurrence of an event referred to in Clause 11.7.1 that we will not convert any monies received hereunder in a

currency other than EURO into any other currency without your prior agreement.

11.7.3 If at any time more than one currency or currency unit are recognised by the central bank of Belgium, or having jurisdiction in any country as the lawful currency of that country.

11.7.3.1 for so long as the currency or currency unit in which the provisions of and obligations under this Agreement are expressed (the "express currency") shall remain so recognised, those provisions and obligations shall remain denominated and paid or satisfied in that currency or currency unit;

11.7.3.2 if the express currency ceases to be so recognised, any reference in this Agreement to that currency or currency unit shall be translated into and become payable in the currency or currency unit of that country designated by us; and

11.7.3.3 any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by us in the manner officially prescribed in relation to such official rate or, if to the extent not so recognised or prescribed, in such manner as we may reasonably determine.

11.7.3.4 If any change in any currency of a country occurs, this Agreement will be amended to the extent we after consultation with the Loan Parties, specify to be necessary in the light of the change in currency and to put the parties hereto as far as possible in the same position as they would have been but for such change in currency.

11.8 VAT

All charges specified in this Agreement are quoted exclusive of VAT

11.9 ELECTRONIC COMMUNICATIONS

Any party may communicate with any other party, other than notices referred to in Clause 11.10, by electronic means and such communication is acceptable as a signed writing. An identification code (called a "USER ID") contained in an electronic document is sufficient to verify the sender's identity and the document's authenticity.

11.10 NOTICES

Any notice required or desired to be given under this Agreement shall be in writing and shall be delivered by facsimile transmission or registered mail, postage prepaid,

and addressed to the address of the respective party to this Agreement listed in the Schedule or following the expiry of a period of 30 Business Days from the delivery of written notice to the other party, such other address or facsimile number notified by that party to the other in accordance

with this clause:

11.11 PARTIAL INVALIDITY

If any provision of this Agreement shall be held to be invalid, illegal or unenforceable under any applicable statute or rule of law, the validity, legality and enforceability of the remaining provisions shall not in any way be affected.

11.12 COMPLETE AGREEMENT

This Agreement including the Schedule embodies the entire agreement between the Loan Parties and us with respect to the subject matter hereof, and any prior written or oral statements relating thereto are not to be considered part of this Agreement.

11.13 MISCELLANEOUS

11.13.1 IBM GF's rights and benefits under this Agreement shall not be affected by the granting of any time or indulgence to any Loan Party or to any surety or guarantor of your obligations to us hereunder or to any Debtor or by any failure to exercise or delay in exercising any right or option against such person.

11.13.2 We shall be entitled to rely on any act done and on any document signed and on any oral or written communication (including any such communication sent by facsimile) by any reason purportedly doing or signing or communicating on behalf of you notwithstanding any defect in or absence of any authority in such person except as provided for in Clause 8.2.3.

11.13.3 Without prejudice to the provisions of Clause 11.5 and except as otherwise provided in this Agreement no variation of this Agreement shall be binding upon the parties unless it is evidenced in writing and signed by or on behalf of IBM GF by an authorised signatory of IBM GF and on behalf of each Loan Party by a director or the secretary or officer thereof.

11.14 APPLICABLE LAW AND JURISDICTION

This Agreement shall be construed in accordance with and governed by the laws of Belgium. The parties hereby submit to the jurisdiction of the Belgian courts.

BY SIGNING BELOW BOTH PARTIES ACCEPT THE TERMS OF THE AGREEMENT

SIGNED ON BEHALF OF

SIGNED ON BEHALF OF

SUPPLIERS DISTRIBUTORS S.A.

IBM BELGIUM FINANCIAL SERVICES S.A.

Signed:.....
By Name:.....
Title:.....
Signature:.....
Date:

Signed:.....
By Name:.....
Title:.....
Signature:.....
Date:

Signed:.....
By Name:.....
Title:.....
Signature:.....
Date:

Signed:.....
By Name:.....
Title:.....
Signature:.....
Date:

IBM BELGIUM FINANCIAL SERVICES S.A.

AMENDED AND RESTATED
COLLATERALIZED GUARANTY

Priority Fulfillment Services, Inc. ("GUARANTOR") and IBM Belgium Financial Services S.A. a registered number of R.C., Brussels 451.673 with an address of Square Victoria Regina 1, BE-1210 Brussels VAT BE 424300467 ("IBM GF") entered into a Collateralized Guaranty dated September 27, 2001 (the "Prior Guaranty"). IBM GF and Guarantor wish to amend and restate the Prior Guaranty on the terms and conditions set forth herein. In consideration of credit and financing accommodations granted or to be granted by IBM GF to Business Supplies Distributors Europe B.V. and Supplies Distributors S.A. (collectively the "Borrower"), which is in the best interest of Guarantor, and for other good and valuable consideration received, Guarantor jointly and severally guaranties to IBM GF and to IBM Credit Corporation as agent to IBM GF ("IBM Credit"), from property held separately, jointly or in community, the prompt and unconditional performance and payment by Borrower of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Borrower is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM GF ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM GF and IBM Credit and hold IBM GF and IBM Credit harmless against any losses it may sustain and expenses it may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Borrower. Capitalized terms used herein without definition shall have the meaning described thereto in the IBM Global Financing Platinum Plan (with Invoice Discounting) dated __ March 2002 between IBM GF and the Borrower (as amended, modified and supplemented from time to time, the "Financing Agreement").

If Borrower fails to pay or perform any Liabilities to IBM GF when due, all Liabilities to IBM GF shall then be deemed to have become immediately due and payable, and Guarantor shall then pay upon demand the full amount of all sums owed to IBM GF by Borrower, together with all expenses, including reasonable attorney's fees.

The liability of Guarantor is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between IBM GF and/or IBM Credit and Borrower, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, or the waiver of any default or event of default under any financing agreement between IBM GF and/or IBM Credit and Borrower, or the release or non-perfection of any security thereunder, any change in Borrower's financial condition, or the interruption of business relations between IBM GF and Borrower. This Amended and Restated Guaranty is and shall be deemed to be a continuing guaranty and shall remain in full force and effect until the indefeasible payment in full of the Liabilities and any other amounts payable under this Amended and Restated Guaranty and the cessation of all obligations of IBM GF to extend credit to Borrower. Guarantor acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM GF and/or IBM Credit and Borrower or any other person creating or reserving any lien, encumbrance or security interest in any property of Borrower or any other person as security for any obligation of Borrower. IBM GF and IBM Credit need not exhaust its rights or recourse against Borrower or any other person or any security IBM GF and IBM Credit may have at any time before being entitled to payment from Guarantor.

To secure payment of all of Guarantor's current and future debts and obligations to IBMGF, and to secure the Liabilities, whether under this Amended and Restated Guaranty or any other agreement between IBM GF and/or IBM Credit and Guarantor, whether direct or contingent, Guarantor does assign, pledge and give to IBM GF a security interest in all of Guarantor's personal property, whether now owned or hereafter acquired or existing and wherever located, including the following:

(a) all inventory and equipment manufactured or sold by or bearing the trademark or tradename of International Business Machines

Corporation ("IBM") or any other Authorized Supplier and all parts thereof, attachments, additions, accessories and accessions thereto, all substitutions, repossessions, exchanges, replacements and returns thereof, all price protection credits, rebates, discounts and incentive payments relating to the foregoing, products, insurance and proceeds thereof and documents therefor ("IBM Credit Inventory"); (b) all accounts, chattel paper, instruments, negotiable documents, promissory notes, general intangibles (including contract rights, software and licenses), deposit accounts, commercial tort claims, intellectual property, investment property, pledged notes, letter of credit rights, supporting obligations, obligations of any kind owing to Guarantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and all books, invoices, documents and other records in any form evidencing or relating to any of the foregoing; (c) all substitutions and replacements for all of the foregoing; and (d) all products or proceeds of all of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code as in effect in the State of New York and are hereinafter referred to as the "Collateral"). Collateral shall not include inventory and equipment of the Guarantor that is not IBM Credit Inventory (as defined above).

In connection with any working capital financing Guarantor receives from another financial institution or commercial lender ("Lender"), Guarantor may request that IBM GF and IBM Credit subordinate its interest in the Collateral (excluding the IBM Credit Inventory) and IBM GF and IBM Credit will not unreasonably withhold its consent provided that:

- (1) No default or event of default exists;
- (2) IBM GF, IBM Credit and Lender shall have entered into a subordination agreement in form and substance satisfactory to IBM GF and IBM Credit in all respects in its sole discretion;
- (3) IBM Credit shall be satisfied that the IBM Credit Inventory shall be segregated from the other property of Guarantor and its customers and IBM GF and IBM Credit shall have a first perfected priority security interest in the IBM Credit Inventory; and
- (4) The books and records maintained on behalf of the Borrower shall be kept separately from Guarantor's other books and records and Guarantor shall have conspicuously noted on the Borrower's books and records that such books and records are the property of Borrower.

IBM GF and IBM Credit shall have the right, but not the obligation, from time to time, as IBM GF and/or IBM Credit in their sole discretion may determine, and all without any advance notice to Guarantor, to: (a) examine the Collateral; (b) appraise it as security; (c) verify its condition and nonuse; (d) verify that all Collateral has been properly accounted for and this Agreement complied with, and (e) assess, examine, check and make copies of any and all of Guarantor's books, records and files.

If Guarantor does not comply with any of the terms of this Agreement, or Guarantor fails to fulfill any obligation to IBM GF and/or IBM Credit or any of IBM GF's and/or IBM Credit's affiliates under any other agreement between IBM GF or IBM Credit and Guarantor or between Guarantor and any of IBM GF's or IBM Credit's affiliates, or Guarantor becomes insolvent or ceases to do business as a going concern, or a bankruptcy, insolvency proceeding, arrangement or reorganization is filed by or against Guarantor, or any of Guarantor's property is attached or seized, or a receiver is appointed for Guarantor, or Guarantor commits any act which impairs the prospect of full performance or satisfaction of Guarantor's obligations to IBM GF and/or IBM Credit, or Guarantor shall lose any franchise, permission, license or right to conduct its business, or Guarantor misrepresents its financial condition or organizational structure, or whenever IBM GF deems the debt or Collateral to be insecure:

- a) IBM GF or IBM Credit may call all or any part of the amount Guarantor or Borrower owes IBM GF due and payable immediately, if permitted by applicable law, together with court costs and all costs and expenses of IBM GF and IBM Credit's repossession and collection activity, including, but not limited to reasonable attorney's fees.

b) Guarantor will hold and keep the Collateral in trust, in good order and repair, for IBM GF and IBM Credit's benefit and shall not exhibit or sell it.

c) Upon IBM GF and/or IBM Credit's demand, Guarantor will immediately deliver the Collateral to IBM GF and/or IBM Credit, in good order and repair, at a place reasonably convenient to IBM GF and IBM Credit, together with all related documents; or IBM GF and/or IBM Credit may, in their sole discretion and without demand, take immediate possession of the Collateral, together with all related documents.

d) Guarantor waives and releases: (i) any and all claims and causes of action which Guarantor may now or ever have against IBM GF and IBM Credit as a result of any possession, repossession, collection or sale by IBM GF and/or IBM Credit of any of the Collateral, notwithstanding the effect of such possession, repossession, collection or sale upon Guarantor's business; (ii) all rights of redemption from any such sale; and (iii) the benefit of all valuation, appraisal and exemption laws. If IBM GF or IBM Credit seeks to take possession of any of the Collateral by replevin or other court process, Guarantor irrevocably waives any notice, bonds, surety and security relating thereto required by any statute, court rule or otherwise as an incident to such possession and any demand for possession of the Collateral prior to the commencement of any suit or action to recover possession thereof.

e) Guarantor appoints IBM GF and IBM Credit or any person IBM GF and/or IBM Credit may delegate as its duly authorized Attorney-in-Fact (without notifying Guarantor) to do, in IBM GF's and IBM Credit's sole discretion, any of the following: (i) sell, assign, transfer, negotiate or pledge any and all accounts, chattel paper, or contract rights; (ii) endorse Guarantor's name on any and all notes, checks, drafts, or other forms of exchange received as payment on any accounts, chattel paper and contract rights, for deposit in IBM GF's and/or IBM Credit's account; (iii) grant any extension, rebate or renewal on any and all accounts, chattel paper or contract rights, or enter into any settlement thereof; (iv) demand, collect and receive any and all amounts due on accounts, chattel paper and contract rights; and (v) exercise any and all rights Guarantor has in the Collateral.

f) In the event Guarantor brings any action or asserts any claim against IBM GF and/or IBM Credit which arises out of this Agreement, any other agreement or any of Guarantor's and IBM GF and/or IBM Credit's business dealings, in which Guarantor does not prevail, Guarantor agrees to pay IBM GF and IBM Credit all court costs and all costs and expenses of IBM GF's and IBM Credit's defense of such action of claim including, but not limited to, reasonable attorney's fees.

IBM GF and/or IBM Credit may also declare a default under this Agreement and exercise any and all rights and remedies available herein, if, in IBM GF's and/or IBM Credit's sole discretion, IBM GF or IBM Credit determines that the Collateral has decreased in value, and Guarantor has been unable to either: (a) provide IBM GF with additional Collateral in a form and substance satisfactory to IBMGF; or (b) pay the Shortfall Amount as defined in the Financing Agreement.

IBM GF and IBM Credit have and will always possess all the rights and remedies of a secured party under law, and IBM GF's and IBM Credit's rights and remedies are and will always be cumulative. Guarantor acknowledges and agrees that the Collateral is the subject of widely distributed standard price quotations and is customarily sold in a recognized market. Guarantor agrees that a private sale by IBM GF or IBM Credit of any of the Collateral to a dealer in those types of Collateral is a commercially reasonable sale. Further, Guarantor agrees that IBM GF's and/or IBM Credit's delivery of any of the Collateral to a distributor or manufacturer, with a request that it repurchase Collateral, as provided in any repurchase agreement with IBMGF, is a commercially reasonable disposition or sale.

Guarantor promises that (a) the Collateral is and shall remain free from all claims and liens except IBM GF's, IBM Credit's and the lien of Congress

Financial Corporation (Southwest); (b) Guarantor shall defend the Collateral against all other claims and demands; and (c) Guarantor will notify IBM Credit before it signs, or authorizes the signing of any financing statement regardless of its coverage. Guarantor authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM GF and IBM Credit as secured party and Guarantor as the debtor and identifying IBM GF's and IBM Credit's security interest in the Collateral that IBM GF and IBM Credit deems necessary to perfect and maintain IBM GF's and IBM Credit's security interest in the Collateral. Guarantor will execute any and all documents IBM GF and/or IBM Credit may request to confirm or perfect IBM GF's and IBM Credit's title or security interest in the Collateral.

Guarantor represents and covenants that the first paragraph of this Amended and Restated Guaranty states the exact name of Guarantor as set forth in its charter or other organizational record. Guarantor represents that it is duly organized under the laws of the State of Delaware and the organization document creating Guarantor has been filed in the appropriate office of such State. In addition, Guarantor's organizational identification number assigned by its State of organization is as follows: 2606094. Guarantor's principal place of business is located at 500 North Central Expressway, Plano, TX 75074 and Guarantor represents that its business is conducted as a CORPORATION. Guarantor will not change its name, location (as defined in Article 9 of the U.C.C.) or State of organization. Guarantor shall provide IBM GF and IBM Credit at least thirty (30) days prior written notice of any change in its form of ownership, management, and of any change in its principal place of business, or any additions or discontinuances of other business locations. The Collateral shall be kept at Guarantor's principal place of business and at the following addresses:

PFS
4550 Quality Drive
Memphis, TN 38118

PFS
4638 Shelby Drive
Memphis, TN 38118

American Eagle Systems
30 Corporate Drive
Holtsville, New York 11742

until all sums owed IBM GF and IBM Credit are paid in full. Guarantor will immediately notify IBM GF and IBM Credit if the Collateral is kept at any other address. This paragraph is for IBM GF's and IBM Credit's informational purposes only, and is not in any way or manner intended to limit the extent of IBM GF's and/or IBM Credit's security interest in the Collateral. Guarantor and its predecessors have done and do business only under the following names: Priority Fulfillment Services, Inc.; PFSweb, Inc..

Guarantor will pay all taxes, license fees, assessments and charges on the Collateral when due. Guarantor will be responsible for any loss of Collateral for any reason whatsoever. Guarantor will keep the Collateral insured for its full insurable value against loss or damage by fire, wind, theft and for combined additional coverage, including vandalism and malicious mischief, and for other risks as IBM GF and/or IBM Credit may require. Guarantor will obtain insurance under such terms and in amounts as IBM GF and/or IBM Credit may specify, from time to time, in companies acceptable to IBM GF and/or IBM Credit, with a loss-payee or mortgagee clause payable to IBM GF and IBM Credit to the extent of any loss to the Collateral and containing a waiver of all defenses against Guarantor that is acceptable to IBM GF and IBM Credit. Guarantor further agrees to provide IBM GF and/or IBM Credit with written evidence of the required insurance coverage and loss-payee or mortgagee clause. Guarantor assigns to IBM GF and IBM Credit all sums not in excess of the unpaid debt owed IBM GF and IBM Credit, and directs any insurance company to make payment directly to IBM Credit to be applied to the unpaid debt owed IBM GF and/or IBM Credit. Guarantor further grants IBM Credit an irrevocable power of attorney to endorse any draft and sign and file all of the necessary papers, forms and documents to initiate and settle any and all

claims with respect to the Collateral. If Guarantor fails to pay any of the above-referenced costs, charges or any insurance premiums, or if it fails to insure the Collateral, IBM GF and/or IBM Credit may pay such costs, charges or

any insurance premiums, and the amounts paid shall be considered an additional debt owed by Guarantor to IBM GF and/or IBM Credit. Guarantor will promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral.

Guarantor will not rent, lease, lend, demonstrate, pledge, create a security interest in, transfer or secrete any of the Collateral, or use the Collateral for any purpose other than exhibition, without IBM Credit's prior written consent.

This Amended and Restated Guaranty is assignable, shall be construed liberally in IBM GF's and IBM Credit's favor, and shall inure to the benefit of and bind IBM GF's, IBM Credit's and Guarantor's respective successors, personal representatives and assigns. Guarantor shall not assign this Amended and Restated Guaranty or its obligations hereunder without the prior written consent of IBM GF or IBM Credit.

If Borrower hereafter is incorporated, acquired by a corporation, dissolved, or otherwise undergoes any change in its management, ownership, identity, or organizational structure, this Amended and Restated Guaranty shall continue to extend to any Liabilities of the Borrower or such resulting corporation, dissolved corporation, or new or changed legal entity, or identity to IBM GF and IBM Credit.

Guarantor waives: notice of the acceptance of this Amended and Restated Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance and dishonor; notices of amount of indebtedness of Borrower outstanding at any time; notices of the number and amount of advances made by IBM GF to Borrower in reliance on this Amended and Restated Guaranty; notice of the financial condition of Borrower or any other guarantor or any change therein; notice of the release of collateral for the Liabilities, of any other guaranty, pledge or suretyship agreement or any collateral therefor; notices of any legal proceedings or other efforts to collect against Borrower; notice of any recoupment, setoff, administrative freeze on Borrower's credit or assets; notice and any opportunity for a hearing as to any prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights to assert against IBM GF and/or IBM Credit any right of recoupment, setoff, and all claims, defenses, and counterclaims against IBM GF, IBM Credit or Borrower, including any defense based on the lack of good faith. To the extent permitted by law, Guarantor also waives any and all rights in and notices or demands relating to any Collateral now or hereafter securing any of the Liabilities. All waivers by Guarantor herein shall survive any termination or revocation of this Amended and Restated Guaranty.

Guarantor authorizes IBM Credit to sell at public or private sale or otherwise realize upon the Collateral now or hereafter securing any of the Liabilities, in such manner and upon such terms and conditions as IBM GF and/or IBM Credit deems best, all without advertisement or notice to Borrower, Guarantor, or any third parties. Guarantor further authorizes IBM GF and IBM Credit to deal with the proceeds of such Collateral as provided in IBM GF's agreement with Borrower, without prejudice to IBM GF's claim for any deficiency and free from any right or redemption on the part of Borrower, Guarantor or any third parties, which right or redemption is hereby waived together with every formality prescribed by custom or by law in relation to any such sale or other realization.

Guarantor further agrees that all of its right, title and interest in, to and under any loans, notes, debts and all other liabilities and obligations whatsoever owed by Borrower to Guarantor, whether heretofore or hereafter created or incurred and for whatever amount, and all security therefor, shall be now and hereafter at all times fully subordinated to all Liabilities. Guarantor will not ask, demand or sue for, or take or receive payment of, all or any part of such loans, notes, debts or any other liabilities or obligations whatsoever or any security therefor, until and unless all of the Liabilities are paid, performed and fully satisfied except as expressly permitted by the Financing Agreement and provided no default or event of default exists. In addition, until such time that the Liabilities are indefeasibly paid in full, Guarantor irrevocably waives, for the benefit of IBM GF and IBM Credit, any and all rights which it presently has, or may hereafter have, whether by virtue of any payment or payments hereunder or otherwise, to be subrogated to the rights of IBM GF and IBM Credit against the Borrower with respect to any such indebtedness of the Borrower to IBMGF.

Guarantor has made an independent investigation of the financial condition of Borrower and gives this Amended and Restated Guaranty based on that investigation and not upon any representations made by IBM GF and/or IBM Credit. Guarantor acknowledges that it has access to current and future Borrower financial information which will enable Guarantor to continuously remain informed of Borrower's financial condition. Guarantor also consents to and agrees that the obligations under this Amended and Restated Guaranty shall not be affected by IBM GF's subsequent increases or decreases in the credit line that IBM GF may grant to Borrower; substitutions, exchanges or releases of all or any part of the Collateral now or hereafter securing any of the Liabilities; sales or other dispositions of any or all of the Collateral now or hereafter securing any of the Liabilities without demands, advertisement or notice of the time or place of the sales or other dispositions; realizing on the Collateral to the extent IBM Credit, in IBM Credit's sole discretion, deems proper; or purchases of all or any part of the Collateral for IBM GF's and/or IBM Credit's own account.

This Amended and Restated Guaranty and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against Borrower, whether such proceedings, actions and/or claims are federal and/or state.

This Amended and Restated Guaranty is submitted by Guarantor to IBM GF (for IBM GF's acceptance or rejection thereof) at IBM GF's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM GF to Borrower. If accepted, this Amended and Restated Guaranty shall be deemed to have been made at IBM GF's above-specified office. THIS AMENDED AND RESTATED GUARANTY AND ALL OBLIGATIONS PURSUANT THERETO, SHALL BE GOVERNED AND CONTROLLED AS TO INTERPRETATION, ENFORCEMENT, VALIDITY, CONSTRUCTION, EFFECT AND, IN ALL OTHER RESPECTS BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS. GUARANTOR, TO INDUCE IBM GF TO ACCEPT THIS AMENDED AND RESTATED GUARANTY, AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING DIRECTLY OR INDIRECTLY IN CONNECTION WITH, OUT OF, RELATED TO OR FROM THIS AMENDED AND RESTATED GUARANTY MAY BE LITIGATED, AT IBM GF'S AND/OR IBM CREDIT'S SOLE DISCRETION AND ELECTION, IN COURTS WITHIN THE STATE OF NEW YORK. GUARANTOR CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN THAT STATE. GUARANTOR WAIVES ANY RIGHT TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST GUARANTOR BY IBM GF AND/OR IBM CREDIT IN ACCORDANCE WITH THIS PARAGRAPH.

Any delay by IBM GF and/or IBM Credit, or IBM GF's and/or IBM Credit's successors or assigns in exercising any or all rights granted IBM GF and/or IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM GF and/or IBM Credit, IBM GF's and/or IBM Credit's successors or assigns, to exercise any or all rights granted IBM GF and IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of IBM GF's and/or IBM Credit's right to exercise any or all of them later.

Notwithstanding anything contained in any document to the contrary, it is understood and agreed that the rights and claims of IBM GF and IBM Credit under the Prior Guaranty continue hereunder and the obligations of Guarantor under the Prior Guaranty constitute Liabilities hereunder

This document contains the full agreement of the parties concerning the guaranty of Borrower's Liabilities and can be varied only by a document signed by all of the parties hereto.

THE PARTIES AGREE THAT ANY ACTION, SUIT OR PROCEEDING, RELATING DIRECTLY OR INDIRECTLY TO THIS AMENDED AND RESTATED GUARANTY, OR THE RELATIONSHIP BETWEEN IBM CREDIT AND GUARANTOR, WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, THE PARTIES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

WITNESS

PRIORITY FULFILLMENT SERVICES, INC.
GUARANTOR

By:

Print Name:

Print Name:

Title: -----

Date: -----

(SEAL)

Guarantor's Address:

----- ' -----

ATTEST:

Secretary

Print Name: -----

IBM BELGIUM FINANCIAL SERVICES S.A.

By: -----

Print Name: -----

Title: -----

IBM BELGIUM FINANCIAL SERVICES S.A.

AMENDED AND RESTATED
GUARANTY
(BY CORPORATION)

PFSweb, Inc. ("Guarantor") and IBM Belgium Financial Services S.A. with a registered number of R.C. Brussels 451.673 with an address of Square Victoria Regina 1, BE-1210 Brussels VAT BE 424300467 ("IBM GF") entered into a Guaranty dated September 27, 2001 (the "Prior Guaranty"). IBM GF and Guarantor wish to amend and restate the Prior Guaranty on the terms and conditions set forth herein. In consideration of credit and financing accommodations granted or to be granted by IBM GF to Business Supplies Distributors Europe B.V. and Supplies Distributors S.A. (collectively the "Customer") under a financing agreement between IBM GF and Customer, which is in the best interest of Guarantor, and for other good and valuable consideration received, Guarantor guaranties to IBM GF and IBM Credit Corporation as agent for IBM GF ("IBM Credit") the prompt and unconditional performance and payment by Customer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Customer is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM GF ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM GF and IBM Credit and hold IBM GF and IBM Credit harmless against any losses IBM GF and/or IBM Credit may sustain and expenses they may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Customer.

If Customer fails to pay or perform any Liabilities to IBM GF when due, all Liabilities to IBM GF shall then be deemed to have become immediately due and payable, and Guarantor shall then pay upon demand the full amount of all sums owed to IBM GF by Customer, together with all expenses, including reasonable attorney's fees.

The liability of Guarantor is direct and unconditional and shall not be affected by any extension, renewal or other change in the terms of payment of any security agreement or any other agreement between IBM GF and/or IBM Credit and Customer, or any change in the manner, place or terms of payment or performance thereof, or the release, settlement or compromise of or with any party liable for the payment or performance thereof, the release or non-perfection of any security thereunder, any change in Customer's financial condition, or the interruption of business relations between IBM GF and Customer. This Amended and Restated Guaranty is and shall be deemed to be a continuing guaranty and shall remain in full force and effect until the indefeasible payment in full of the Liabilities and any other amounts payable under this Amended and Restated Guaranty and the cessation of all obligations of IBM GF to extend credit to Customer. Guarantor acknowledges that its obligations hereunder are in addition to and independent of any agreement or transaction between IBM GF and/or IBM Credit and Customer or any other person creating or reserving any lien, encumbrance or security interest in any property of Customer or any other person as security for any obligation of Customer. IBM GF and/or IBM Credit need not exhaust their rights or recourse against Customer or any other person or any security they may have at any time before being entitled to payment from Guarantor.

This Amended and Restated Guaranty is assignable, shall be construed liberally in IBM GF's and IBM Credit's favor, and shall inure to the benefit of and bind IBM GF's, IBM Credit's and Guarantor's respective successors, personal representatives and assigns. Guarantor shall not assign this Amended and Restated Guaranty or its obligations hereunder without the prior written consent of IBM GF or IBM Credit.

If Customer hereafter is incorporated, acquired by a corporation, dissolved, or otherwise undergoes any change in its management, ownership, identity or organizational structure, this Amended and Restated Guaranty shall continue to extend to any Liabilities of the Customer or such resulting corporation, dissolved corporation, or new or changed legal entity or identity to IBM GF.

Guarantor waives: notice of the acceptance of this Amended and Restated Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance, any right of contribution from other guarantors, and dishonor; notices of amount of indebtedness of Customer outstanding at any time; notices of the number and amount of advances made by IBM GF to Customer in reliance on this Amended and Restated Guaranty; notices of any legal proceedings against Customer; notice and hearing as to any prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights of set-off and all counterclaims against IBM GF and IBM Credit or Customer. Guarantor also waives any and all rights in and notices or demands relating to any collateral now or hereafter securing any of the Liabilities, including, but not limited to, all rights, notices or demands relating, whether directly or indirectly, to the sale or other disposition of any or all of such collateral or the manner of such sale or other disposition. All waivers by Guarantor herein shall survive any termination or revocation of this Amended and Restated Guaranty. Guarantor authorizes IBM GF and IBM Credit to sell at public or private sale or otherwise realize upon the collateral now or hereafter securing any of the Liabilities, in such manner and upon such terms and conditions as IBM GF and or IBM Credit deems best, all without advertisement or notice to Customer, Guarantor, or any third parties. Guarantor further authorizes IBM GF and IBM Credit to deal with the proceeds of such collateral as provided in IBM GF's agreement with Customer, without prejudice to IBM GF's and/or IBM Credit's claim for any deficiency and free from any right or redemption on the part of Customer, Guarantor or any third parties, which right or redemption is hereby waived together with every formality prescribed by custom or by law in relation to any such sale or other realization.

Guarantor further agrees that all of its right, title and interest in, to and under any loans, notes, debts and all other liabilities and obligations whatsoever owed by Customer to Guarantor, whether heretofore or hereafter created or incurred and for whatever amount, and all security therefor, shall be now and hereafter at all times fully subordinated to all Liabilities. Guarantor will not ask, demand or sue for, or take or receive payment of, all or any part of such loans, notes, debts or any other liabilities or obligations whatsoever or any security therefor, until and unless all of the Liabilities are paid, performed and fully satisfied.

Until such time the Liabilities are indefeasibly paid in full, the Guarantor hereby irrevocably waives for the benefit of IBM GF and IBM Credit, any and all rights which it presently has, or may hereafter have, whether by virtue of any payment or payments hereunder or otherwise, to be subrogated to the rights of IBM GF and IBM Credit against the Customer with respect to any such indebtedness of the Customer to IBM GF.

Guarantor has made an independent investigation of the financial condition of Customer and gives this Amended and Restated Guaranty based on that investigation and not upon any representations made by IBM GF and/or IBM Credit. Guarantor acknowledges that it has access to current and future Customer financial information which will enable Guarantor to continuously remain informed of Customer's financial condition. Guarantor also consents to and agrees that the obligations under this Amended and Restated Guaranty shall not be affected by IBM GF's: subsequent increases or decreases in the credit line that IBM GF may grant to Customer; substitutions, exchanges or releases of all or any part of the collateral now or hereafter securing any of the Liabilities; sales or other dispositions of any or all of the collateral now or hereafter securing any of the Liabilities without demands, advertisement or notice of the time or place of the sales or other dispositions; realizing on the collateral to the extent IBM GF and/or IBM Credit, in their sole discretion, deem proper; or purchases of all or any part of the collateral for IBM GF's and/or IBM Credit's own account.

This Amended and Restated Guaranty and any and all obligations, liabilities, terms and provisions herein shall survive any and all bankruptcy or insolvency proceedings, actions and/or claims brought by or against Customer, whether such proceedings, actions and/or claims are federal and/or state.

This Amended and Restated Guaranty is submitted by Guarantor to IBM GF (for IBM GF's acceptance or rejection thereof) at IBM GF's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM GF to Customer. If accepted, this Amended and Restated Guaranty shall be deemed to have been made at IBM GF's above specified

office. THIS AMENDED AND RESTATED GUARANTY AND ALL OBLIGATIONS PURSUANT THERETO, SHALL BE GOVERNED AND CONTROLLED AS TO INTERPRETATION, ENFORCEMENT, VALIDITY, CONSTRUCTION, EFFECT

AND IN ALL OTHER RESPECTS BY THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE PRINCIPLES OF CONFLICTS OF LAWS. GUARANTOR, TO INDUCE IBM GF TO ACCEPT THIS AMENDED AND RESTATED GUARANTY, AGREES THAT ALL ACTIONS OR PROCEEDINGS ARISING DIRECTLY OR INDIRECTLY IN CONNECTION WITH, OUT OF, RELATED TO OR FROM THIS AMENDED AND RESTATED GUARANTY MAY BE LITIGATED, AT IBM GF'S AND/OR IBM CREDIT'S SOLE DISCRETION AND ELECTION, IN COURTS WITHIN THE STATE OF NEW YORK. GUARANTOR CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURT LOCATED WITHIN THAT STATE. GUARANTOR WAIVES ANY RIGHT TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST GUARANTOR BY IBM GF OR IBM CREDIT IN ACCORDANCE WITH THIS PARAGRAPH.

Any delay by IBM GF or IBM Credit, or their successors or assigns in exercising any or all rights granted IBM GF and IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM GF or IBM Credit, their successors or assigns, to exercise any or all rights granted IBM GF and/or IBM Credit under this Amended and Restated Guaranty shall not operate as a waiver of IBM GF's and/or IBM Credit's right to exercise any or all of them later.

Notwithstanding anything contained in any document to the contrary, it is understood and agreed that the rights and claims of IBM GF and IBM Credit under the Prior Guaranty continue hereunder and the obligations of Guarantor under the Prior Guaranty constitute Liabilities hereunder

This document contains the full agreement of the parties concerning the guaranty of Customer's Liabilities and can be varied only by a document signed by all the parties hereto.

THE PARTIES AGREE THAT ANY ACTION, SUIT OR PROCEEDING RELATING DIRECTLY OR INDIRECTLY TO THIS AMENDED AND RESTATED GUARANTY OR THE RELATIONSHIP BETWEEN IBM GF, IBM CREDIT AND GUARANTOR, WILL BE TRIED IN A COURT OF COMPETENT JURISDICTION BY A JUDGE WITHOUT A JURY. THUS, THE PARTIES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN ANY SUCH ACTION, SUIT OR PROCEEDING.

WITNESS: PFSWEB, INC.

(Print Name _____) By: _____

Name: _____

(SEAL) Title: _____

Date: March __, 2002

Guarantor's Address:

ATTEST:

(Secretary)

(Print Name _____)

SECRETARY'S CERTIFICATE

I hereby certify that I am the Secretary of the following named corporation and that execution of the above Amended and Restated Guaranty was ratified, approved and confirmed by the Shareholders at a meeting, if necessary, and pursuant to a resolution of the Board of Directors of the corporation at a meeting of the Board of Directors duly called, and which is currently in effect, which resolution was duly presented, seconded and adopted and reads as follows:

"BE IT RESOLVED that any officer of this corporation is hereby authorized to execute a guaranty of the obligations of Business Supplies Distributors Europe B.V. and Supplies Distributors S.A. (collectively, the "Customer") to IBM Belgium Financial Services S.A. on behalf of the corporation, which instrument may contain such terms as the above named persons may see fit including, but not limited to a waiver of notice of acceptance of this Amended and Restated Guaranty; presentment; demand; protest; notices of nonpayment, nonperformance, dishonor, the amount of indebtedness of Customer outstanding at any time, any legal proceedings against Customer, and any other demands and notices required by law; any right of contribution from other guarantors; and all set-offs and counterclaims."

IN WITNESS WHEREOF and as Secretary of the named corporation I have hereunto set my hand and affixed the corporate seal on this ____ day of March, 2002.

PFSWEB, INC.

(SEAL)

(Secretary)

SUBORDINATED DEMAND NOTE

\$7,500,000

March , 2002

FOR VALUE RECEIVED, SUPPLIES DISTRIBUTORS, INC., a Delaware corporation ("Borrower"), promises to pay to the order of PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation (the "Lender"), on DEMAND (the "Maturity Date") the principal amount set forth above, or so much thereof, or such other amount, as shall, from time to time, be advanced by or on behalf of the Lender to, or for the benefit of, the Borrower, and shall be outstanding, together with interest thereon as herein provided. All sums hereunder are payable on demand to Lender at its principal offices in lawful currency of the United States of America and in immediately available funds. All payments and prepayments made hereunder shall be made without setoff, counterclaim or deduction of any kind.

The unpaid principal balance hereof shall accrue interest, commencing on the date hereof and continuing until paid in full, as herein provided, at a fluctuating rate per annum equal to the Lender's cost of funds for the corresponding period as determined by the Lender; provided, however, that, for so long as this Note shall be outstanding, as of the last day of each fiscal year of the Borrower, all accrued and unpaid interest for such fiscal year shall be capitalized and added to the principal balance of this Note and thereafter interest shall accrue on such increased principal balance. Notwithstanding the foregoing, however, the interest payable hereunder shall not exceed the highest lawful rate permitted under the provisions of applicable law (the "Highest Lawful Rate").

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY IS SUBORDINATED TO IBM CREDIT CORPORATION AND CONGRESS FINANCIAL CORPORATION (SOUTHWEST) IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THOSE CERTAIN NOTES PAYABLE SUBORDINATION AGREEMENTS EXECUTED AND DELIVERED BY LENDER.

Borrower, and each surety, endorser, guarantor and other party now or hereafter liable for the payment of any sums of money payable on this Note, hereby severally (a) waive demand, presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices, filing of suit and diligence in collecting this Note or enforcing any other security with respect to same, (b) agree to any substitution, subordination, exchange or release of any such security or the release of any parties primarily or secondarily liable hereon, (c) agree that Lender shall not be required first to institute suit or exhaust its remedies hereon against Borrower, or others liable or to become liable hereon or to enforce its rights against them or any security with respect to same, (d) consent to any and all renewals, extensions, indulgences, releases or changes, regardless of the number of such renewals, extensions, indulgences, releases or changes, without notice thereof, and (e) agree to the application of any deposit balance with Lender as payment or part payment hereon or as an offset hereto. No waiver by Lender of any of its rights or remedies hereunder or under any other document evidencing or securing this Note or otherwise shall be considered a waiver of any other subsequent right or remedy of Lender; no delay or omission in the exercise or endorsement by Lender of any rights or remedies shall ever be construed as a waiver of the same or any other right or remedy of Lender; and no exercise or enforcement of any such right or remedy shall ever be held to exhaust any right or remedy of Lender.

Failure to pay this Note or any installment of principal or payment of interest when due shall constitute an Event of Default and shall entitle the Lender to accelerate the principal amount hereof and all interest then accrued, which shall at once become due and payable, and to exercise all other rights and remedies available at law or in equity.

If this Note is not paid at maturity and is placed in the hands of an attorney for collection, or if it is collected through a bankruptcy or any other court, then Lender shall be entitled to reasonable attorneys' fees and other costs of collection.

Borrower acknowledges and agrees that it is the intention of Borrower and Lender to conform strictly to the usury laws in force that apply to this Note. Accordingly, this Note is hereby limited so that in no contingency, whether by reason of acceleration of the maturity of the Note or otherwise, shall the interest (and all other sums that are deemed to be interest) contracted for, charged or received by Lender with respect to this Note exceed

the Highest Lawful Rate. If, from any circumstance whatsoever, interest under this Note would otherwise be payable in excess of the Highest Lawful Rate, and if from any circumstance Lender shall ever receive anything of value deemed interest by applicable Law in excess of the Highest Lawful Rate, then Lender's receipt of such excess interest shall be deemed a mistake and

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the same shall, so long as no Event of Default shall be continuing, at the option of Borrower, either be repaid to Borrower or credited to the unpaid principal; provided, however, that if an Event of Default shall have occurred and be continuing, and Lender shall receive excess interest during such period, then Lender shall have the option of either crediting such excess amount to principal or refunding such excess amount for Borrower. If the Note is prepaid or the maturity of the Note is accelerated by reason of an election of Lender following an Event of Default, then unearned interest, if any, shall be cancelled and, if theretofore paid, shall either be refunded to Borrower or credited on the Note, as Lender elects. All interest paid or agreed to be paid to Lender shall, to the extent allowed by applicable law, be amortized, prorated, allocated, and spread throughout the full period until payment in full of the principal (including the period of any renewal or extension) so that the interest for such full period shall not exceed the Highest Lawful Rate.

THIS NOTE SHALL BE DEEMED AN INSTRUMENT MADE UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA. PURSUANT TO SECTION 346.004 OF THE TEXAS FINANCE CODE, CHAPTER 346 OF THE TEXAS FINANCE CODE SHALL NOT APPLY TO THIS NOTE, OR ANY ADVANCE OR LOAN EVIDENCED BY THIS NOTE.

THE OBLIGATIONS OF BORROWER HEREUNDER ARE PERFORMABLE IN COLLIN COUNTY, TEXAS. ANY SUIT, ACTION OR PROCEEDING AGAINST BORROWER WITH RESPECT TO THIS NOTE OR ANY OTHER LOAN DOCUMENT, OR ANY JUDGMENT ENTERED BY ANY COURT IN RESPECT THEREOF, MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS, COUNTY OF COLLIN, OR IN THE UNITED STATES COURTS LOCATED IN DALLAS, TEXAS AND BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURTS FOR THE PURPOSE OF ANY SUCH SUIT, ACTION OR PROCEEDING. BORROWER HEREBY IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN ANY SUIT, ACTION OR PROCEEDING IN SAID COURT BY THE MAILING THEREOF BY AGENT BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO BORROWER AT THE ADDRESS FOR NOTICES AS PROVIDED IN THE AGREEMENT. BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER LOAN DOCUMENT BROUGHT IN THE COURTS LOCATED IN THE STATE OF TEXAS, COUNTY OF COLLIN, AND HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

BORROWER WAIVES ANY AND ALL RIGHTS THAT IT MAY HAVE TO A TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM OR OTHER ACTION, OF ANY NATURE WHATSOEVER, RELATING TO OR ARISING OUT OF THIS NOTE, ANY OF THE OTHER LOAN DOCUMENTS OR THE OBLIGATIONS. BORROWER ACKNOWLEDGES THAT THE FOREGOING JURY TRIAL WAIVER IS A MATERIAL INDUCEMENT TO LENDER'S ENTERING INTO THE AGREEMENT AND THAT LENDER IS RELYING ON SUCH WAIVER IN ITS FUTURE DEALINGS WITH BORROWER. BORROWER WARRANTS AND REPRESENTS TO LENDER THAT BORROWER HAS REVIEWED THE FOREGOING JURY TRIAL WAIVER WITH ITS LEGAL COUNSEL AND HAS KNOWINGLY AND VOLUNTARILY WAIVED ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH SUCH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, THE FOREGOING JURY TRIAL WAIVER MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

BORROWER HEREBY WAIVES ALL OF ITS RIGHTS UNDER THE TEXAS DECEPTIVE TRADE PRACTICES-CONSUMER PROTECTION ACT (TEX. BUS. & COM. CODE SECTION 17.01 ET SEQ.), A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS, AND REPRESENTS AND WARRANTS TO LENDER THAT BORROWER (A) HAS KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS THAT ENABLE BORROWER TO EVALUATE THE MERITS AND RISKS OF THE TRANSACTIONS CONTEMPLATED BY THE AGREEMENT AND THIS NOTE, (B) IS NOT IN A SIGNIFICANTLY DISPARATE BARGAINING POSITION RELATIVE TO LENDER, AND (C) HAS BEEN REPRESENTED BY LEGAL COUNSEL IN CONNECTION WITH SUCH TRANSACTIONS.

THIS NOTE REPRESENTS THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND

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SUPERSEDES ALL PRIOR AGREEMENTS AND UNDERSTANDINGS, IF ANY, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF. THIS NOTE REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

SUPPLIES DISTRIBUTORS, INC.
a Delaware corporation

By: _____
Name: Joe Farrell
Title: President

Pay to the order of IBM Credit Corporation and Congress Financial Corporation (Southwest), as their interests may appear:

Priority Fulfillment Services, Inc.

By: _____
Name: Tom Madden
Title: Chief Financial Officer

NOTES PAYABLE SUBORDINATION AGREEMENT

March 29, 2002

Congress Financial Corporation (Southwest)
901 Main Street, Suite 1625
Dallas, Texas 75202

Ladies and/or Gentlemen:

Supplies Distributors, Inc., a Delaware corporation with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("Supplies"), may become indebted to Priority Fulfillment Services, Inc., a Delaware corporation ("PFS") (howsoever evidenced and whether now existing or hereafter incurred, the "PFS Indebtedness"). PFS represents that no part of the PFS Indebtedness has been assigned to or subordinated in favor of any other Person, other than pursuant to that certain Amended and Restated Notes Payable Subordination Agreement, dated as of March 29, 2002, by and between PFS and IBM Credit Corporation, a Delaware corporation ("IBM Credit"), and that PFS does not hold any security therefor. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Loan Agreement referred to below.

To induce Congress Financial Corporation (Southwest), a Texas corporation ("Congress"), to enter into a loan agreement with Supplies (as amended, modified, and supplemented from time to time, the "Loan Agreement") and in consideration of any loans, advances, payments, extensions or credit (including the extension or renewal, in whole or in part, of any antecedent or other debt), benefits or financial accommodations heretofore or hereafter made, granted or extended by Congress or which Congress has or will become obligated to make, grant or extend to or for the account of Supplies whether under the Loan Agreement, any of the other Financing Agreements or otherwise, and in consideration of any obligations heretofore or hereafter incurred by Supplies to Congress, whether under the Loan Agreement, any of the other Financing Agreements or otherwise, PFS agrees to make the payment of the PFS Indebtedness and any and all other present or future indebtedness of Supplies to PFS together with any and all interest accrued thereon (collectively the "Secondary Obligations") subject and subordinate to the prior indefeasible payment in full of any and all debts, obligations and liabilities of Supplies to Congress, whether absolute or contingent, due or to become due, now existing or hereafter arising (including interest accrued subsequent to the filing of any petition under any bankruptcy, insolvency or similar law, whether or not such interest is allowed pursuant to claim under such law) and whether direct or acquired by Congress by transfer, assignment or otherwise (collectively the "Primary Obligations") and that Supplies shall make no payments to PFS or to any permitted assignee or holder of the PFS Indebtedness in respect of the Secondary Obligations until the Primary Obligations have been indefeasibly paid in full as acknowledged in writing by Congress. Notwithstanding the foregoing, Supplies may make payments in respect of the Secondary Obligations provided, that, (i) no Event of Default, or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred and be continuing, or would occur as a result of any such payment; (ii) any such payment shall not cause the total principal amount of the Secondary Obligations to be less than \$6,500,000; and (iii) the

Notes Payable Subordination Agreement

aggregate amount of the Revolving Loans at the time of such payment shall not exceed the amounts available to Supplies in accordance with Section 2.1 of the Loan Agreement. Except as provided above, PFS agrees not to ask, demand, sue for, take or receive payment or security for all or any part of the Secondary Obligations until and unless all of the Primary Obligations shall have been fully paid and discharged.

Upon any distribution of any assets of Supplies whether by reason of sale, reorganization, liquidation, dissolution, arrangement, bankruptcy, receivership, assignment for the benefit of creditors, foreclosure or otherwise,

Congress shall be entitled to receive payment in full of the Primary Obligations prior to the payment of any part of the Secondary Obligations. To enable Congress to enforce its rights hereunder in any such proceeding or upon the happening of any such event, Congress or any person whom Congress may from time to time designate is hereby irrevocably appointed attorney-in-fact for PFS with full power to act in the place and stead of PFS including the right to make, present, file and vote proofs of claim against Supplies on account of all or any part of said Secondary Obligations as Congress may deem advisable and to receive and collect any and all payments made thereon and to apply the same on account of the Primary Obligations. PFS will execute and deliver to Congress such instruments as Congress may require to enforce each of the Secondary Obligations, to effectuate said power of attorney and to effect collection of any and all dividends or other payments which may be made at any time on account thereof.

While this instrument remains in effect, PFS will not assign to or subordinate in favor of any other person, firm or corporation, except IBM Credit, any right, claim or interest in or to the Secondary Obligations or commence or join with any other creditor in commencing any bankruptcy, reorganization or insolvency proceeding against Supplies. Congress may at any time, in its discretion, renew or extend the time of payment of all or any portion of the Primary Obligations or waive or release any collateral which may be held therefor and Congress may enter into such agreements with Supplies as Congress may deem desirable without notice to or further assent from PFS and without adversely affecting Congress's rights hereunder in any manner whatsoever.

In furtherance of the foregoing and as collateral security for the payment and discharge in full of any and all of the Primary Obligations, PFS hereby transfers and assigns to Congress the Secondary Obligations and all collateral security therefor to which PFS now is or may at any time be entitled and all rights under all guarantees thereof and agrees to deliver to Congress, after the obligations owed by Supplies to IBM Credit pursuant to that certain Agreement for Inventory Financing dated as of March 29, 2002 between Supplies, IBM Credit and the other parties signatory thereto have been satisfied in full, endorsed in blank all notes or other instruments now or hereafter evidencing said Secondary Obligations which have not otherwise been delivered to IBM Credit. Congress may file one or more financing statements concerning any security interest hereby created without the signature of PFS appearing thereon.

The within instrument is and shall be deemed to be a continuing subordination and shall be and remain in full force and effect until all Primary Obligations have been performed and paid in full and Congress's commitment, if any, under the Loan Agreement has been terminated.

Notes Payable Subordination Agreement

IN WITNESS WHEREOF, each of the undersigned have executed this letter agreement as of the day and year first written above.

PRIORITY FULFILLMENT SERVICES, INC.

By: _____

Thomas J. Madden
Chief Financial Officer and
Executive Vice President

500 North Central Expressway, 5th Floor
Plano, Texas 75074

Supplies hereby acknowledges notice of the within and foregoing subordination and agrees to be bound by all the terms, provisions and conditions thereof. Except as expressly permitted hereby, Supplies further agrees not to repay all or any part of the Secondary Obligations, or to issue any note or other instrument evidencing the same or to grant any collateral security therefor without Congress's prior written consent.

SUPPLIES DISTRIBUTORS, INC.

By:

Joe Farrell
President and
Chief Executive Officer

500 North Central Expressway, 5th Floor
Plano, Texas 75074

ACCEPTED:

CONGRESS FINANCIAL CORPORATION (SOUTHWEST)

By:

Mike Sheff
Senior Vice President

Notes Payable Subordination Agreement

ACKNOWLEDGMENT OF SUBORDINATION

STATE OF TEXAS)
) SS
COUNTY OF DALLAS)

On the 29th day of March, 2002, appeared before me Thomas J. Madden to me known to be the individual described in and who executed the foregoing instrument, and who acknowledged to me that the same was executed as his or her free and voluntary act for the uses and purposes therein set forth.

(Notary Public)

My Commission Expires:

Notes Payable Subordination Agreement

GUARANTEE

March 29, 2002

Congress Financial Corporation (Southwest)
1201 Main Street, Suite 1625
Dallas, Texas 75202

Re: Supplies Distributors, Inc., a Delaware corporation (herein referred to as "Borrower")

Gentlemen:

Congress Financial Corporation (Southwest) ("Lender") and Borrower have entered into certain financing arrangements pursuant to which Lender may make loans and advances and provide other financial accommodations to Borrower as set forth in the Loan and Security Agreement, dated March 29, 2002 by and between Borrower and Lender (as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, the "Loan Agreement"), and other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including, but not limited to, this Guarantee (all of the foregoing, together with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, being collectively referred to herein as the "Financing Agreements").

Due to the close business and financial relationships between Borrower and each and all of the undersigned (individually and collectively, "Guarantors"), in consideration of the benefits which will accrue to Guarantors and as an inducement for and in consideration of Lender making loans and advances and providing other financial accommodations to Borrower pursuant to the Loan Agreement and the other Financing Agreements, each of Guarantors hereby jointly and severally agrees in favor of Lender as follows:

1. Guarantee.

(a) Each of Guarantors absolutely and unconditionally, jointly and severally, guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the "Guaranteed Obligations"): (i) all obligations, liabilities and indebtedness of any kind, nature and description of Borrower to Lender and/or its affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under the Loan Agreement, the other Financing Agreements or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to Borrower under the United States Bankruptcy Code or any similar statute (including, without

Guarantee

limitation, the payment of interest and other amounts, which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in any such case and including loans, interest, fees, charges and expenses related thereto and all other obligations of Borrower or its successors to Lender arising after the commencement of such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Lender and (ii) all expenses (including, without limitation, attorneys' fees and legal expenses) incurred by Lender in connection with the preparation, execution, delivery,

recording, administration, collection, liquidation, enforcement and defense of Borrower's obligations, liabilities and indebtedness as aforesaid to Lender, the rights of Lender in any collateral or under this Guarantee and all other Financing Agreements or in any way involving claims by or against Lender directly or indirectly arising out of or related to the relationships between Borrower, any of Guarantors or any other Obligor (as hereinafter defined) and Lender, whether such expenses are incurred before, during or after the initial or any renewal term of the Loan Agreement and the other Financing Agreements or after the commencement of any case with respect to Borrower or any of Guarantors under the United States Bankruptcy Code or any similar statute.

(b) This Guarantee is a guaranty of payment and not of collection. Each of Guarantors agrees that Lender need not attempt to collect any Guaranteed Obligations from Borrower, any one of Guarantors or any other Obligor or to realize upon any collateral, but may require any one of Guarantors to make immediate payment of all of the Guaranteed Obligations to Lender when due, whether by maturity, acceleration or otherwise, or at any time thereafter. Lender may apply any amounts received in respect of the Guaranteed Obligations to any of the Guaranteed Obligations, in whole or in part (including attorneys' fees and legal expenses incurred by Lender with respect thereto or otherwise chargeable to Borrower or Guarantors) and in such order as Lender may elect.

(c) Payment by Guarantors shall be made to Lender at the office of Lender from time to time on demand as Guaranteed Obligations become due. Guarantors shall make all payments to Lender on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against any of Guarantors either in the same action in which Borrower or any of the other Guarantors or any other Obligor is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against any of Guarantors, each of Guarantors agrees not to deduct, set-off, or seek any counterclaim for or recoup any amounts which are or may be owed by Lender to any of Guarantors.

2. Waivers and Consents.

(a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial accommodations to Borrower and presentment, demand, protest, notice of protest, notice of nonpayment or default and all other notices to which Borrower or any

Guaranteee

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of Guarantors are entitled are hereby waived by each of Guarantors. Each of Guarantors also waives notice of and hereby consents to, (i) any amendment, modification, supplement, extension, renewal, or restatement of the Loan Agreement and any of the other Financing Agreements, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations, the interest rate, fees, other charges, or any collateral, and the guarantee made herein shall apply to the Loan Agreement and the other Financing Agreements and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased, (ii) the taking, exchange, surrender and releasing of collateral or guarantees now or at any time held by or available to Lender for the obligations of Borrower or any other party at any time liable on or in respect of the Guaranteed Obligations or who is the owner of any property which is security for the Guaranteed Obligations (individually, an "Obligor" and collectively, the "Obligors"), including, without limitation, the surrender or release by Lender of any one of Guarantors hereunder, (iii) the exercise of, or refraining from the exercise of any rights against Borrower, any of Guarantors or any other Obligor or any collateral, (iv) the settlement, compromise or release of, or the waiver of any default with respect to, any of the Guaranteed Obligations and (v) any financing by Lender of Borrower under Section 364 of the United States Bankruptcy Code or consent to the use of cash collateral by Lender under Section 363 of the United States Bankruptcy Code. Each of Guarantors agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantors hereunder shall not be otherwise impaired or affected by any of the foregoing.

(b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defense to this Guarantee, nor shall any other circumstance which might otherwise constitute a defense available to or legal or equitable discharge of Borrower in respect of any of the Guaranteed Obligations, or any one of Guarantors in respect of this Guarantee, affect, impair or be a defense to this Guarantee. Without limitation of the foregoing, the liability of Guarantors hereunder shall not be discharged or impaired in any respect by reason of any failure by Lender to perfect or continue perfection of any lien or security interest in any collateral or any delay by Lender in perfecting any such lien or security interest. As to interest, fees and expenses, whether arising before or after the commencement of any case with respect to Borrower under the United States Bankruptcy Code or any similar statute, Guarantors shall be liable therefor, even if Borrower's liability for such amounts does not, or ceases to, exist by operation of law. Each of Guarantors acknowledges that Lender has not made any representations to any of Guarantors with respect to Borrower, any other Obligor or otherwise in connection with the execution and delivery by Guarantors of this Guarantee and Guarantors are not in any respect relying upon Lender or any statements by Lender in connection with this Guarantee.

(c) Each of Guarantors hereby irrevocably and unconditionally waives and relinquishes all statutory, contractual, common law, equitable and all other claims against Borrower, any collateral for the Guaranteed Obligations or other assets of Borrower or any other Obligor, for subrogation, reimbursement, exoneration, contribution, indemnification, setoff or other recourse in respect to sums paid or payable to Lender by each of Guarantors hereunder and each of Guarantors hereby further irrevocably and unconditionally waives and relinquishes any

Guaranteee

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and all other benefits which Guarantors might otherwise directly or indirectly receive or be entitled to receive by reason of any amounts paid by or collected or due from Guarantors, Borrower or any other Obligor upon the Guaranteed Obligations or realized from their property.

3. Subordination. Except as expressly set forth in that certain Notes Payable Subordination Agreement dated as of the date hereof by Priority Fulfillment Services, Inc. in favor of Lender, payment of all amounts now or hereafter owed to Guarantors by Borrower or any other Obligor is hereby subordinated in right of payment to the indefeasible payment in full to Lender of the Guaranteed Obligations and all such amounts and any security and guarantees therefor are hereby assigned to Lender as security for the Guaranteed Obligations.

4. Acceleration. Notwithstanding anything to the contrary contained herein or any of the terms of any of the other Financing Agreements, the liability of Guarantors for the entire Guaranteed Obligations shall mature and become immediately due and payable, even if the liability of Borrower or any other Obligor therefor does not, upon the occurrence of any act, condition or event which constitutes an Event of Default as such term is defined in the Loan Agreement.

5. Account Stated. The books and records of Lender showing the account between Lender and Borrower shall be admissible in evidence in any action or proceeding against or involving Guarantors as prima facie proof of the items therein set forth, and the monthly statements of Lender rendered to Borrower, to the extent to which no written objection is made within thirty (30) days from the date of sending thereof to Borrower, shall be deemed conclusively correct and constitute an account stated between Lender and Borrower and be binding on Guarantors.

6. Termination. This Guarantee is continuing, unlimited, absolute and unconditional. All Guaranteed Obligations shall be conclusively presumed to have been created in reliance on this Guarantee. Each of Guarantors shall continue to be liable hereunder until one of Lender's officers actually receives a written termination notice from a Guarantor sent to Lender at its address set forth above by certified mail, return receipt requested and thereafter as set forth below. Such notice received by Lender from any one of Guarantors shall not constitute a revocation or termination of this Guarantee as to any of the other Guarantors. Revocation or termination hereof by any of Guarantors shall not

affect, in any manner, the rights of Lender or any obligations or duties of any of Guarantors (including the Guarantor which may have sent such notice) under this Guarantee with respect to (a) Guaranteed Obligations which have been created, contracted, assumed or incurred prior to the receipt by Lender of such written notice of revocation or termination as provided herein, including, without limitation, (i) all amendments, extensions, renewals and modifications of such Guaranteed Obligations (whether or not evidenced by new or additional agreements, documents or instruments executed on or after such notice of revocation or termination), (ii) all interest, fees and similar charges accruing or due on and after revocation or termination, and (iii) all attorneys' fees and legal expenses, costs and other expenses paid or incurred on or after such notice of revocation or termination in attempting to collect or enforce any of the Guaranteed Obligations against Borrower, Guarantors or any other Obligor (whether or not suit be brought), or (b) Guaranteed Obligations which have been

Guarantee

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created, contracted, assumed or incurred after the receipt by Lender of such written notice of revocation or termination as provided herein pursuant to any contract entered into by Lender prior to receipt of such notice. The sole effect of such revocation or termination by any of Guarantors shall be to exclude from this Guarantee the liability of such Guarantor for those Guaranteed Obligations arising after the date of receipt by Lender of such written notice which are unrelated to Guaranteed Obligations arising or transactions entered into prior to such date. Without limiting the foregoing, this Guarantee may not be terminated and shall continue so long as the Loan Agreement shall be in effect (whether during its original term or any renewal, substitution or extension thereof).

7. Reinstatement. If after receipt of any payment of, or proceeds of collateral applied to the payment of, any of the Guaranteed Obligations, Lender is required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and effect as if such payment or proceeds had not been received by Lender. Each of Guarantors shall be liable to pay to Lender, and does indemnify and hold Lender harmless for the amount of any payments or proceeds surrendered or returned. This Section 7 shall remain effective notwithstanding any contrary action which may be taken by Lender in reliance upon such payment or proceeds. This Section 7 shall survive the termination or revocation of this Guarantee.

8. Amendments and Waivers. Neither this Guarantee nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender. Lender shall not by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

9. Corporate Existence, Power and Authority. Each of Guarantors is a corporation duly organized and in good standing under the laws of its state or other jurisdiction of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on the financial condition, results of operation or businesses of any of Guarantors or the rights of Lender hereunder or under any of the other Financing Agreements. The execution, delivery and performance of this Guarantee is within the corporate powers of each of Guarantors, have been duly authorized and are not in contravention of law or the terms of the certificates of incorporation, by-laws, or other organizational documentation of each of Guarantors, or any indenture, agreement or undertaking to which any of Guarantors is a party or by which any of Guarantors or its property are bound. This Guarantee constitutes the legal, valid and binding obligation of each of Guarantors enforceable in accordance with its terms. Any one of Guarantors signing this Guarantee shall be

bound hereby whether or not any of the other Guarantors or any other person signs this Guarantee at any time.

10. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Guarantee and any dispute arising out of the relationship between any of Guarantors and Lender, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Texas (without giving effect to principles of conflicts of law).

(b) Each of Guarantors hereby irrevocably consents and submits to the non-exclusive jurisdiction of the State of Texas and the United States District Court for the Northern District of Texas and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Guarantee or any of the other Financing Agreements or in any way connected with or related or incidental to the dealings of any of Guarantors and Lender in respect of this Guarantee or any of the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising and whether in contract, tort, equity or otherwise, and agrees that any dispute arising out of the relationship between any of Guarantors or Borrower and Lender or the conduct of any such persons in connection with this Guarantee, the other Financing Agreements or otherwise shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against any of Guarantors or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on collateral at any time granted by Borrower or any of Guarantors to Lender or to otherwise enforce its rights against any of Guarantors or its property).

(c) Each of Guarantors hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Lender's option, by service upon any of Guarantors in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, any of Guarantors so served shall appear in answer to such process, failing which such Guarantors shall be deemed in default and judgment may be entered by Lender against Guarantors for the amount of the claim and other relief requested.

(d) EACH OF GUARANTORS HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF ANY OF GUARANTORS AND LENDER IN RESPECT OF THIS GUARANTEE OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. EACH OF GUARANTORS HEREBY

AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT ANY OF GUARANTORS OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTORS AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Lender shall not have any liability to Guarantors (whether in tort, contract, equity or otherwise) for losses suffered by Guarantors in connection with, arising out of, or in any way related to the transactions or

relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Loan Agreement and the other Financing Agreements.

11. Notices. All notices, requests and demands hereunder shall be in writing and (a) made to Lender at its address set forth above and to each of Guarantors at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail, return receipt requested, five (5) days after mailing.

12. Partial Invalidity. If any provision of this Guarantee is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

13. Entire Agreement. This Guarantee represents the entire agreement and understanding of this parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

14. Successors and Assigns. This Guarantee shall be binding upon Guarantors and their respective successors and assigns and shall inure to the benefit of Lender and its successors, endorsees, transferees and assigns. The liquidation, dissolution or termination of any of Guarantors shall not terminate this Guarantee as to such entity or as to any of the other Guarantors.

Guarantee

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15. Construction. All references to the term "Guarantors" wherever used herein shall mean each and all of Guarantors and their respective successors and assigns, individually and collectively, jointly and severally (including, without limitation, any receiver, trustee or custodian for any of Guarantors or any of their respective assets or any of Guarantors in its capacity as debtor or debtor-in-possession under the United States Bankruptcy Code). All references to the term "Lender" wherever used herein shall mean Lender and its successors and assigns and all references to the term "Borrower" wherever used herein shall mean Borrower and its successors and assigns (including, without limitation, any receiver, trustee or custodian for Borrower or any of its assets or Borrower in its capacity as debtor or debtor-in-possession under the United States Bankruptcy Code). All references to the term "Person" or "person" wherever used herein shall mean any individual, sole proprietorship, partnership, corporation (including, without limitation, any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality of political subdivision thereof. All references to the plural shall also mean the singular and to the singular shall also mean the plural.

{REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGE FOLLOWS.}

Guarantee

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IN WITNESS WHEREOF, each of Guarantors has executed and delivered this Guarantee as of the day and year first above written.

ATTEST:

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By:

Joe Farrell
Manager

[CORPORATE SEAL]

Chief Executive Office

500 North Central Expressway, 5th Floor
Plano, Texas 75074

ATTEST:

PRIORITY FULFILLMENT SERVICES, INC.

By:

Thomas J. Madden
Chief Financial Officer and
Executive Vice President

[CORPORATE SEAL]

Chief Executive Office

500 North Central Expressway, 5th Floor
Plano, Texas 75074

ATTEST:

PFSWEB, INC.

By:

Thomas J. Madden
Chief Financial Officer and
Executive Vice President

[CORPORATE SEAL]

Chief Executive Office

500 North Central Expressway, 5th Floor
Plano, Texas 75074

Guarantee

STATE OF TEXAS)
)
COUNTY OF DALLAS)

SS.:

On this 29th day of March, 2002 before me personally came Joe Farrell, to me known, who stated that he is the Manager of Business Supplies Distributors Holders, LLC, the limited liability company described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said limited liability company.

Notary Public

STATE OF TEXAS)
)
COUNTY OF DALLAS)

SS.:

On this 29th day of March, 2002 before me personally came Thomas J. Madden, to me known, who stated that he is the Chief Financial Officer and Executive Vice President of Priority Fulfillment Services, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

Notary Public

STATE OF TEXAS)
) SS.:
COUNTY OF DALLAS)

On this 29th day of March, 2002 before me personally came Thomas J. Madden to me known, who stated that he is the Chief Financial Officer and Executive Vice President of PFSweb, Inc., the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

Notary Public

Guarantee

GENERAL SECURITY AGREEMENT

This General Security Agreement ("Agreement") dated March 29, 2002 is by Priority Fulfillment Services, Inc., a Delaware corporation ("Guarantor"), in favor of Congress Financial Corporation (Southwest), a Texas corporation ("Lender").

WITNESSETH

WHEREAS, Lender has entered or is about to enter into certain financing arrangements with Supplies Distributors, Inc., a Delaware corporation (herein referred to as "Borrower") pursuant to which Lender may make loans and provide other financial accommodations to Borrower; and

WHEREAS, Guarantor has executed and delivered or is about to execute and deliver to Lender a guarantee in favor of Lender pursuant to which Guarantor absolutely and unconditionally guarantees to Lender the payment and performance of all now existing and hereafter arising obligations, liabilities and indebtedness of Borrower to Lender; and

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION I. DEFINITIONS

All terms used herein which are defined in Article 1 or Article 9 of the Uniform Commercial Code shall have the meanings given therein unless otherwise defined in this Agreement. All references to the plural herein shall also mean the singular and to the singular shall also mean the plural unless the context otherwise requires. All references to Guarantor, Borrower and Lender pursuant to the definitions set forth in the recitals hereto, or to any other person herein, shall include their respective successors and assigns. The words "hereof," "herein," "hereunder," "this Agreement" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not any particular provision of this Agreement and as this Agreement now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced. The word "including" when used in this Agreement shall mean "including, without limitation." An Event of Default shall exist or continue or be continuing until such Event of Default is waived in accordance with Section 7.3 or is cured in a manner satisfactory to Lender, if such Event of Default is capable of being cured as determined by Lender. Any accounting term used herein unless otherwise defined in this Agreement shall have the meanings customarily given to such term in accordance with GAAP. For purposes of this Agreement, the following terms shall have the respective meanings given to them below:

1.1. "Event of Default" shall have the meaning set forth in Section 6.1 hereof.

Security Agreement

1.2. "Financing Agreements" shall mean, collectively, the Loan Agreement, this Agreement and all notes, guarantees, security agreements and other agreements, documents and instruments now or at any time hereafter executed and/or delivered by Borrower, Guarantor or any Obligor in connection with the Loan Agreement, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.3. "Foreign Subsidiary" shall mean any wholly owned subsidiary of any Guarantor that is organized under the laws of any jurisdiction other than the United States, any state or territory thereof or the District of Columbia.

1.4. "GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board which are applicable to the

circumstances as of the date of determination consistently applied, except that, for purposes of Sections 5.14 hereof, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Lender prior to the date hereof.

1.5. "IBM Inventory" shall have the meaning set forth in Section 2.1 hereof.

1.6. "Information Certificate" shall mean the Information Certificate (as defined in the Loan Agreement) of each Guarantor containing material information with respect to Guarantor, its business and assets provided by or on behalf of Guarantor to Lender in connection with the preparation of this Agreement and the other Financing Agreements and the financing arrangements provided for herein.

1.7. "Loan Agreement" shall mean the Loan and Security Agreement, dated March 29, 2002, by and between Borrower and Lender, as the same now exists and may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

1.8. "Obligations" shall mean any and all obligations, liabilities and indebtedness of every kind, nature and description owing by Guarantor to Lender and/or its affiliates, including principal, interest, charges, fees, costs and expenses, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, whether arising under this Agreement or otherwise, whether now existing or hereafter arising, whether arising before, during or after the initial or any renewal term of the Loan Agreement or after the commencement of any case with respect to Borrower or Guarantor under the United States Bankruptcy Code or any similar statute (including the payment of interest and other amounts which would accrue and become due but for the commencement of such case, whether or not such amounts are allowed or allowable in whole or in part in such case), whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, and however acquired by Lender.

1.9. "Obligor" shall mean any other guarantor, endorser, acceptor, surety or other person liable on or with respect to the Obligations or who is the owner of any property which is security for the Obligations, other than Borrower.

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1.10. "Person" or "person" shall mean any individual, sole proprietorship, partnership, corporation (including any corporation which elects subchapter S status under the Internal Revenue Code of 1986, as amended), limited liability company, limited liability partnership, business trust, unincorporated association, joint stock corporation, trust, joint venture or other entity or any government or any agency or instrumentality or political subdivision thereof.

1.11. "Receivables" shall mean all of the following now owned or hereafter arising or acquired property of Guarantor: (a) all accounts; (b) all interest, fees, late charges, penalties, collection fees and other amounts due or to become due or otherwise payable in connection with any Account; (c) all payment intangibles of Guarantor; (d) letters of credit, indemnities, guarantees, security or other deposits and proceeds thereof issued payable to Guarantor or otherwise in favor of or delivered to Guarantor in connection with any Account; or (e) all other accounts, contract rights, chattel paper, instruments, notes, general intangibles and other forms of obligations owing to Guarantor, whether from the sale and lease of goods or other property, licensing of any property (including intellectual property or other general intangibles), rendition of services or from loans or advances by Guarantor or to or for the benefit of any third person (including loans or advances to any affiliates or subsidiaries of Guarantor) or otherwise associated with any accounts, inventory or general intangibles of Guarantor (including, without limitation, choses in action, causes of action, tax refunds, tax refund claims, any funds which may become payable to Guarantor in connection with the termination of any employee benefit plan and any other amounts payable to Guarantor from any employee benefit plan, rights and claims against carriers and shippers, rights to indemnification, business interruption insurance and proceeds thereof, casualty

or any similar types of insurance and any proceeds thereof and proceeds of insurance covering the lives of employees on which Guarantor is a beneficiary).

1.12. "Records" shall mean all of Guarantor's present and future books of account of every kind or nature, purchase and sale agreements, invoices, ledger cards, bills of lading and other shipping evidence, statements, correspondence, memoranda, credit files and other data relating to the Collateral or any account debtor, together with the tapes, disks, diskettes and other data and software storage media and devices, file cabinets or containers in or on which the foregoing are stored (including any rights of Guarantor with respect to the foregoing maintained with or by other person).

SECTION II. GRANT AND PERFECTION OF SECURITY INTEREST

2.1. Grant of Security Interest. To secure payment of all of Guarantor's current and future debts and obligations to Lender, whether under this Guaranty or any other agreement between Lender and Guarantor and to secure the Obligations, whether direct or contingent, Guarantor does assign, pledge and give to Lender a security interest in all of Guarantor's personal property, whether now owned or hereafter acquired or existing and wherever located, including the following: (a) all inventory and equipment manufactured or sold by or bearing the trademark or tradename of International Business Machines Corporation ("IBM") or any other authorized supplier and all parts thereof, attachments, additions, accessories and accessions thereto, all substitutions, repossessions, exchanges, replacements and returns thereof, all price protection credits, rebates, discounts and incentive payments relating to the foregoing, products,

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insurance and proceeds thereof and documents therefor ("IBM Inventory"); (b) all accounts, chattel paper, instruments, negotiable documents, promissory notes, general intangibles (including contract rights, software and licenses), deposit accounts, commercial tort claims, intellectual property, investment property, pledged notes, letter of credit rights, supporting obligations, obligations of any kind owing to Guarantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and all books, invoices, documents and other records in any form evidencing or relating to any of the foregoing; (c) all substitutions and replacements for all of the foregoing; and (d) all products or proceeds of all of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code and are hereinafter referred to as the "Collateral"). Collateral shall not include inventory and equipment of the Guarantor that is not IBM Inventory (as defined above).

2.2. Perfection of Security Interests.

(a) Guarantor irrevocably and unconditionally authorizes Lender (or its agent) to file at any time and from time to time such financing statements with respect to the Collateral naming Lender or its designee as the secured party and Guarantor as debtor, as Lender may require, and including any other information with respect to Guarantor or otherwise required by part 5 of Article 9 of the Uniform Commercial Code of such jurisdiction as Lender may determine, together with any amendment and continuations with respect thereto, which authorization shall apply to all financing statements filed on, prior to or after the date hereof. Guarantor hereby ratifies and approves all financing statements naming Lender or its designee as secured party and Guarantor, as debtor with respect to the Collateral (and any amendments with respect to such financing statements) filed by or on behalf of Lender prior to the date hereof and ratifies and confirms the authorization of Lender to file such financing statements (and amendments, if any). Guarantor hereby authorizes Lender to adopt on behalf of Guarantor any symbol required for authenticating any electronic filing. In the event that the description of the collateral in any financing statement naming Lender or its designee as the secured party and Guarantor as debtor includes assets and properties of Guarantor that do not at any time constitute Collateral, whether hereunder, under any of the other Financing Agreements or otherwise, the filing of such financing statement shall nonetheless be deemed authorized by such Guarantor to the extent of the Collateral included in such description and it shall not render the financing statement

ineffective as to any of the Collateral or otherwise affect the financing statement as it applies to any of the Collateral. In no event shall Guarantor at any time file, or permit or cause to be filed, any correction statement or termination statement with respect to any financing statement (or amendment or continuation with respect thereto) naming Lender or its designee as secured party and Guarantor as debtor.

(b) Guarantor shall take any other actions reasonably requested by Lender from time to time to cause the attachment, perfection and first priority of, and the ability of Lender to enforce, the security interest of Lender in any and all of the Collateral, including, without limitation, (i) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the UCC or other applicable law, to the extent, if any, that Guarantor's signature thereon is required therefor,

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(ii) causing Lender's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of Lender to enforce, the security interest of Lender in such Collateral, (iii) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of Lender to enforce, the security interest of Lender in such Collateral, (iv) obtaining the consents and approvals of any governmental authority or third party, including, without limitation, any consent of any licensor, lessor or other person obligated on Collateral, and taking all actions required by any earlier versions of the UCC or by other law, as applicable in any relevant jurisdiction.

SECTION III. COLLATERAL COVENANTS

3.1. Accounts Covenants. Lender may, at any time or times that an Event of Default exists or has occurred and is continuing, (i) notify any or all account debtors that the accounts have been assigned to Lender and that Lender has a security interest therein and Lender may direct any or all accounts debtors to make payment of accounts directly to Lender, (ii) extend the time of payment of, compromise, settle or adjust for cash, credit, return of merchandise or otherwise, and upon any terms or conditions, any and all accounts or other obligations included in the Collateral and thereby discharge or release the account debtor or any other party or parties in any way liable for payment thereof without affecting any of the Obligations, (iii) demand, collect or enforce payment of any accounts or such other obligations, but without any duty to do so, and Lender shall not be liable for its failure to collect or enforce the payment thereof nor for the negligence of its agents or attorneys with respect thereto and (iv) take whatever other action Lender may deem necessary or desirable for the protection of its interests. At any time that an Event of Default exists or has occurred and is continuing, at Lender's request, all invoices and statements sent to any account debtor shall state that the accounts and such other obligations have been assigned to Lender and are payable directly and only to Lender and Guarantor shall deliver to Lender such originals of documents evidencing the sale and delivery of goods or the performance of services giving rise to any accounts as Lender may require.

3.2. Inventory Covenants. With respect to the inventory, Guarantor shall at all times maintain inventory records reasonably satisfactory to Lender, keeping correct and accurate records itemizing and describing the kind, type, quality and quantity of inventory, Guarantor's cost therefor and daily withdrawals therefrom and additions thereto.

3.3. Equipment Covenants. With respect to the equipment which is included as Collateral: (a) upon Lender's request, Guarantor shall, at its expense, at any time or times as Lender may request on or after an Event of Default, deliver or cause to be delivered to Lender written reports or appraisals as to the equipment in form, scope and methodology acceptable to Lender and by appraiser acceptable to Lender; (b) Guarantor shall keep the equipment in good order, repair, running and marketable condition (ordinary wear and tear excepted); (c) Guarantor shall use the equipment with all reasonable care and caution and in accordance with applicable standards of any insurance and in conformity with all applicable laws; (d) the equipment is and shall be

used in Guarantor's business and not for personal, family, household or farming use;

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(e) the equipment is now and shall remain personal property and Guarantor shall not permit any of the equipment to be or become a part of or affixed to real property; and (g) Guarantor assumes all responsibility and liability arising from the use of the equipment.

3.4. Power of Attorney. Guarantor hereby irrevocably designates and appoints Lender (and all persons designated by Lender) as Guarantor's true and lawful attorney-in-fact, and authorizes Lender, in Guarantor's or Lender's name, at any time an Event of Default or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing, to; (i) demand payment on Receivables or other proceeds of inventory or other Collateral, (ii) enforce payment of Receivables by legal proceedings or otherwise, (iii) exercise all of Guarantor's rights and remedies to collect any Receivables or other Collateral, (iv) sell or assign any Receivables upon such terms, for such amount and at such time or times as the Lender deems advisable, (v) settle, adjust, compromise, extend or renew an Account, (vi) discharge and release any Receivables, (vii) prepare, file and sign Guarantor's name on any proof of claim in bankruptcy or other similar document against an account debtor or other Obligor in respect of any Receivables or other Collateral, (viii) notify the post office authorities to change the address for delivery of remittances from account debtors or other Obligors in respect of the Receivables or other proceeds of Collateral to an address designated by Lender, and open and dispose of all mail addressed to Guarantor and handle and store all mail relating to the Collateral, (ix) do all acts and things which are necessary, in Lender's determination, to fulfill Guarantor's obligations under this Agreement and the other Financing Agreements, (x) take control in any manner of any item of payment in respect of Receivables or constituting Collateral or otherwise received in or for deposit in any blocked accounts or otherwise received by Lender, (xi) have access to any lockbox or postal box into which remittances from account debtors or other Obligors in respect of Receivables or other proceeds of Collateral are sent or received are deposited, (xii) endorse Guarantor's name upon any items of payment in respect of Receivables constituting Collateral or otherwise received by Lender and deposit the same in the Lender's account for application to the Obligations, (xiii) endorse Guarantor's name upon any chattel paper, document, instrument, invoice, or similar document or agreement relating to any Receivable or any goods pertaining thereto or any other Collateral including any warehouse or other receipts, or bills of lading and other negotiable or non-negotiable documents, and (xiv) sign Guarantor's name on any verification of Receivables and notices thereof to account debtors and/or any secondary obligors or other obligors in respect thereof. Guarantor hereby releases Lender and its officers, employees and designees from any liabilities arising from any act or acts under this power of attorney and in furtherance thereof, whether of omission or commission, except as a result of Lender's own gross negligence or willful misconduct as determined pursuant to a final non-appealable order of a court of competent jurisdiction.

3.5. Right to Cure. Lender may, at its option, (a) cure any default by Guarantor under any agreement with a third party that affects the Collateral, its value or the ability of Lender to collect, sell or otherwise dispose of the Collateral or the rights and remedies of Lender therein or the ability of Guarantor or any Obligor to perform its obligations hereunder or under any of the Financing Agreements, (b) pay or bond on appeal any judgment entered against Guarantor, (c) discharge taxes, liens, security interests or other encumbrances at any time levied on or existing with respect to the Collateral and (d) pay any amount, incur any expense or perform any act which, in Lender's judgment, is necessary or appropriate to preserve, protect, insure or

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maintain the Collateral and the rights of Lender with respect thereto. Lender shall be under no obligation to effect such cure, payment or bonding and shall not, by doing so, be deemed to have assumed any obligation or liability of Guarantor or any Obligor. Any payment made or other action taken by Lender under this Section shall be without prejudice to any right to assert an Event of

Default hereunder and to proceed accordingly.

3.6. Access to Premises. From time to time as requested by Lender, at the cost and expense of Guarantor, (a) Lender or its designee shall have complete access to all of Guarantor's premises during normal business hours and after notice to Guarantor, or at any time and without notice to Guarantor if an Event of Default exists or has occurred and is continuing, for the purposes of inspecting, verifying and auditing the Collateral and all of Guarantor's books and records, including the Records, and (b) Guarantor shall promptly furnish to Lender such copies of such books and records or extracts therefrom as Lender may request, and (c) use during normal business hours such of Guarantor's personnel, equipment, supplies and premises as may be reasonably necessary for the foregoing and if an Event of Default exists or has occurred and is continuing for the collection of Receivables and realization of other Collateral.

SECTION IV. REPRESENTATIONS AND WARRANTIES

Guarantor hereby represents and warrants to Lender the following (which shall survive the execution and delivery of this Agreement):

4.1. Corporate Existence, Power and Authority; Subsidiaries. Guarantor is a corporation duly organized and in good standing under the laws of its state of incorporation and is duly qualified as a foreign corporation and in good standing in all states or other jurisdictions where the nature and extent of the business transacted by it or the ownership of assets makes such qualification necessary, except for those jurisdictions in which the failure to so qualify would not have a material adverse effect on Guarantor's financial condition, results of operation or business or the rights of Lender in or to any of the Collateral. The execution, delivery and performance of this Agreement, the other Financing Agreements and the transactions contemplated hereunder and thereunder are all within Guarantor's corporate powers, have been duly authorized and are not in contravention of law or the terms of Guarantor's certificate of incorporation, by-laws, or other organizational documentation, or any indenture, agreement or undertaking to which Guarantor is a party or by which Guarantor or its property are bound. This Agreement and the other Financing Agreements constitute legal, valid and binding obligations of Guarantor enforceable in accordance with their respective terms. Guarantor does not have any subsidiaries except as set forth on the Information Certificate.

4.2. Name; State of Organization; Chief Executive Office; Collateral Locations.

(a) The exact legal name of Guarantor is as set forth on the signature page of this Agreement and in the Information Certificate. Guarantor has not, during the past five years, been known by or used any other corporate or fictitious name or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its property or assets out of the ordinary course of business, except as set forth in the Information Certificate.

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(b) Guarantor is an organization of the type and organized in the jurisdiction set forth in the Information Certificate. The Information Certificate accurately sets forth the organizational identification number of Guarantor or accurately states that Guarantor has none and accurately sets forth the federal employer identification number of Guarantor.

(c) The chief executive office and mailing address of Guarantor and Guarantor's Records concerning accounts are currently located and for the past five years have only been located at the address set forth below and its only other places of business and the only other locations of Collateral, if any, during such time periods are the addresses set forth in the Information Certificate, subject to the rights of Guarantor to establish new locations in accordance with Section 5.2 below. The Information Certificate correctly identifies any of such locations which are not owned by Guarantor and sets forth the owners and/or operators thereof.

4.3. Priority of Liens; Title to Properties. The security interests and

liens granted to Lender under this Agreement and the other Financing Agreements constitute valid and perfected first priority liens and security interests in and upon the Collateral subject only to the liens indicated on Schedule 4.4 hereto and the other liens permitted under Section 5.8 hereof. Guarantor has good and marketable title to all of its properties and assets subject to no liens, mortgages, pledges, security interests, encumbrances or charges of any kind, except those granted to Lender and such others as are specifically listed on Schedule 4.4 hereto or permitted under Section 5.8 hereof.

4.4. Tax Returns. Guarantor has filed, or caused to be filed, in a timely manner all tax returns, reports and declarations which are required to be filed by it (without requests for extension except as previously disclosed in writing to Lender). All information in such tax returns, reports and declarations is complete and accurate in all material respects. Guarantor has paid or caused to be paid all taxes due and payable or claimed due and payable in any assessment received by it, except taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor and with respect to which adequate reserves have been set aside on its books. Adequate provision has been made for the payment of all accrued and unpaid Federal, State, county, local, foreign and other taxes whether or not yet due and payable and whether or not disputed.

4.5. Litigation. Except as set forth on the Information Certificate, there is no present investigation by any governmental agency pending, or to the best of Guarantor's knowledge threatened, against or affecting Guarantor, its assets or business and there is no action, suit, proceeding or claim by any Person pending, or to the best of Guarantor's knowledge threatened, against Guarantor or its assets or goodwill, or against or affecting any transactions contemplated by this Agreement, which if adversely determined against Guarantor would result in any material adverse change in the assets, business or prospects of Guarantor or which would impair the ability of Guarantor to perform its obligations hereunder or under any of the other Financing Agreements to which it is a party or of Lender to enforce the Obligations or realize upon any Collateral.

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4.6. Compliance with Other Agreements and Applicable Laws. Guarantor is not in default in any material respect under, or in violation in any material respect of any of the terms of, any agreement, contract, instrument, lease or other commitment to which it is a party or by which it or any of its assets are bound and Guarantor is in compliance in all material respects with all applicable provisions of laws, rules, regulations, licenses, permits, approvals and orders of any foreign, Federal, State or local governmental authority.

4.7. Intellectual Property. Guarantor owns or licenses or otherwise has the right to use all intellectual property necessary for the operation of its business as presently conducted or proposed to be conducted. As of the date hereof, Guarantor does not have any intellectual property registered, or subject to pending applications, in the United States Patent and Trademark Office or any similar office or agency in the United States, any State thereof, any political subdivision thereof or in any other country, other than those described in Schedule 4.9 hereto and has not granted any licenses with respect thereto other than as set forth in Schedule 4.9 hereto. No event has occurred which permits or would permit after notice or passage of time or both, the revocation, suspension or termination of such rights. To the best of Guarantor's knowledge, no slogan or other advertising device, product, process, method, substance or other intellectual property or goods bearing or using any intellectual property presently contemplated to be sold by or employed by Guarantor infringes any patent, trademark, servicemark, tradename, copyright, license or other intellectual property owned by any other Person presently and no claim or litigation is pending or threatened against or affecting Guarantor contesting its right to sell or use any such intellectual property. Schedule 4.9 hereto sets forth all of the agreements or other arrangements of Guarantor pursuant to which Guarantor has a license or other right to use any trademarks, logos, designs, representations or other intellectual property owned by another person as in effect on the date hereof and the dates of the expiration of such agreements or other arrangements of Guarantor as in effect on the date hereof.

4.8. Accuracy and Completeness of Information. All information furnished by or on behalf of Guarantor in writing to Lender in connection with this Agreement or any of the other Financing Agreements or any transaction

contemplated hereby or thereby, including all information on the Information Certificate is true and correct in all material respects on the date as of which such information is dated or certified and does not omit any material fact necessary in order to make such information not misleading. No event or circumstance has occurred which has had or could reasonably be expected to have a material adverse affect on the business, assets or prospects of Guarantor, which has not been fully and accurately disclosed to Lender in writing.

4.9. Survival of Warranties; Cumulative. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be deemed to have been made again to Lender on the date of each additional borrowing or other credit accommodation under the Loan Agreement and shall be conclusively presumed to have been relied on by Lender regardless of any investigation made or information possessed by Lender. The representations and warranties set forth herein shall be cumulative and in addition to any other representations or warranties which Guarantor shall now or hereafter give, or cause to be given, to Lender.

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SECTION V. AFFIRMATIVE AND NEGATIVE COVENANTS

5.1. Maintenance of Existence.

(a) Guarantor shall at all times preserve, renew and keep in full, force and effect its corporate existence and rights and franchises with respect thereto and maintain in full force and effect all permits, licenses, trademarks, tradenames, approvals, authorizations, leases and contracts necessary to carry on the business as presently or proposed to be conducted.

(b) Guarantor shall not change its name unless each of the following conditions is satisfied: (i) Lender shall have received not less than thirty (30) days' prior written notice from Guarantor of such proposed change in its corporate name, which notice shall accurately set forth the new name; and (ii) Lender shall have received a copy of the amendment to the Certificate of Incorporation of Guarantor providing for the name change certified by the Secretary of State of the jurisdiction of incorporation of Guarantor as soon as it is available.

(c) Guarantor shall not change its chief executive office or its mailing address or organizational identification number (or if it does not have one, shall not acquire one) unless Lender shall have received not less than thirty (30) days' prior written notice from Guarantor of such proposed change, which notice shall set forth such information with respect thereto as Lender may require and Lender shall have received such agreements as Lender may reasonably require in connection therewith. Guarantor shall not change its type of organization, jurisdiction of organization or other legal structure.

5.2. New Collateral Locations. Guarantor may only open any new location within the continental United States provided Guarantor (a) gives Lender thirty (30) days' prior written notice of the intended opening of any such new location and (b) executes and delivers, or causes to be executed and delivered, to Lender such agreements, documents, and instruments as Lender may deem reasonably necessary or desirable to protect its interests in the Collateral at such location, including UCC financing statements.

5.3. Compliance with Laws, Regulations, Etc. Guarantor shall, at all times, comply in all material respects with all laws, rules, regulations, licenses, permits, approvals and orders of any Federal, State or local governmental authority applicable to it.

5.4. Payment of Taxes and Claims. Guarantor shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets, except for taxes the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor and with respect to which adequate reserves have been set aside on its books. Guarantor shall be liable for any tax or penalties imposed on Lender as a result of the financing arrangements provided for herein

and Guarantor agrees to indemnify and hold Lender harmless with respect to the foregoing, and to repay to Lender on demand the amount thereof, and until paid by Guarantor such amount shall be added and deemed part of the Loans, provided, that, nothing contained herein shall be construed to require Guarantor to pay any income or franchise taxes attributable to the income of Lender from

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any amounts charged or paid hereunder to Lender. The foregoing indemnity shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Loan Agreement.

5.5. Insurance. Guarantor shall, at all times, maintain with financially sound and reputable insurers insurance with respect to the Collateral against loss or damage and all other insurance of the kinds and in the amounts customarily insured against or carried by corporations of established reputation engaged in the same or similar businesses and similarly situated. Said policies of insurance shall be satisfactory to Lender as to form, amount and insurer. Guarantor shall furnish certificates, policies or endorsements to Lender as Lender shall require as proof of such insurance, and, if Guarantor fails to do so, Lender is authorized, but not required, to obtain such insurance at the expense of Guarantor. All policies shall provide for at least thirty (30) days' prior written notice to Lender of any cancellation or reduction of coverage and that Lender may act as attorney for Guarantor in obtaining, and at any time an Event of Default exists or has occurred and is continuing, adjusting, settling, amending and canceling such insurance. Guarantor shall cause Lender to be named as a loss payee and an additional insured (but without any liability for any premiums) under such insurance policies and Guarantor shall obtain non-contributory lender's loss payable endorsements to all insurance policies in form and substance satisfactory to Lender. Such lender's loss payable endorsements shall specify that the proceeds of such insurance shall be payable to Lender as its interests may appear and further specify that Lender shall be paid regardless of any act or omission by Guarantor or any of its affiliates. At its option, Lender may apply any insurance proceeds received by Lender at any time to the cost of repairs or replacement of Collateral and/or to payment of the Obligations, whether or not then due, in any order and in such manner as Lender may determine or hold such proceeds as cash collateral for the Obligations.

5.6. Encumbrances. Guarantor shall not create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, charge or other encumbrance of any nature whatsoever on any of its assets or properties, including the Collateral, except: (a) liens and security interests of Lender; (b) liens securing the payment of taxes, either not yet overdue or the validity of which are being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor and with respect to which adequate reserves have been set aside on its books; (c) non-consensual statutory liens (other than liens securing the payment of taxes) arising in the ordinary course of Guarantor's business to the extent: (i) such liens secure indebtedness which is not overdue or (ii) such liens secure indebtedness relating to claims or liabilities which are fully insured and being defended at the sole cost and expense and at the sole risk of the insurer or being contested in good faith by appropriate proceedings diligently pursued and available to Guarantor, in each case prior to the commencement of foreclosure or other similar proceedings and with respect to which adequate reserves have been set aside on its books; (d) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of real property which do not interfere in any material respect with the use of such real property or ordinary conduct of the business of Guarantor as presently conducted thereon or materially impair the value of the real property which may be subject thereto; (e) purchase money security interests in equipment and purchase money mortgages on real estate (including capital leases) not to exceed \$500,000 in the aggregate at any time outstanding so long as such security interests and mortgages do not apply to any property of Guarantor other than the equipment or real estate so acquired, and the indebtedness secured thereby does not exceed the cost of the equipment or

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real estate so acquired, as the case may be; (f) liens on cash not to exceed

\$5,000,000 in the aggregate at any time to secure Guarantor's obligations under capital leases; (g) liens and security interests of IBM Credit Corporation; and (h) the security interests and liens set forth on Schedule 4.4 hereto.

5.7. Transactions with Affiliates. Guarantor shall not, directly or indirectly, (a) purchase, acquire or lease any property from, or sell, transfer or lease any property to, any officer, director, agent or other person affiliated with Guarantor, except in the ordinary course of and pursuant to the reasonable requirements of Guarantor's business and upon fair and reasonable terms no less favorable to Guarantor than Guarantor would obtain in a comparable arm's length transaction with an unaffiliated person or (b) make any payments of management, consulting or other fees for management or similar services, or of any indebtedness owing to any officer, employee, shareholder, director or other person affiliated with Guarantor except reasonable compensation to officers, employees and directors for services rendered to Guarantor in the ordinary course of business.

5.8. Costs and Expenses. Guarantor shall pay to Lender on demand all costs, expenses, filing fees and taxes paid or payable in connection with the preparation, negotiation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of the Obligations, Lender's rights in the Collateral, this Agreement, the other Financing Agreements and all other documents related hereto or thereto, including any amendments, supplements or consents which may hereafter be contemplated (whether or not executed) or entered into in respect hereof and thereof, including: (a) all costs and expenses of filing or recording (including Uniform Commercial Code financing statement filing taxes and fees, documentary taxes, intangibles taxes and mortgage recording taxes and fees, if applicable); (b) insurance premiums, appraisal fees and search fees; (c) costs and expenses of preserving and protecting the Collateral; (d) costs and expenses paid or incurred in connection with obtaining payment of the Obligations, enforcing the security interests and liens of Lender, selling or otherwise realizing upon the Collateral, and otherwise enforcing the provisions of this Agreement and the other Financing Agreements or defending any claims made or threatened against Lender arising out of the transactions contemplated hereby and thereby (including preparations for and consultations concerning any such matters); and (e) the fees and disbursements of counsel (including legal assistants) to Lender in connection with any of the foregoing.

5.9. Further Assurances. At the request of Lender at any time and from time to time, Guarantor shall, at its expense, at any time or times duly execute and deliver, or cause to be duly executed and delivered, such further agreements, documents and instruments, and do or cause to be done such further acts as may be necessary or proper to evidence, perfect, maintain and enforce the security interests and the priority thereof in the Collateral and to otherwise effectuate the provisions or purposes of this Agreement or any of the other Financing Agreements. Where permitted by law, Guarantor hereby authorizes Lender to execute and file one or more UCC financing statements signed only by Lender.

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SECTION VI. EVENTS OF DEFAULT AND REMEDIES

6.1. Events of Default. The occurrence or existence of any Event of Default under the Loan Agreement is referred to herein individually as an "Event of Default," and collectively as "Events of Default."

6.2. Remedies.

(a) At any time an Event of Default exists or has occurred and is continuing, Lender shall have all rights and remedies provided in this Agreement, the other Financing Agreements, the Uniform Commercial Code and other applicable law, all of which rights and remedies may be exercised without notice to or consent by Guarantor or any Obligor, except as such notice or consent is expressly provided for hereunder or required by applicable law. All rights, remedies and powers granted to Lender hereunder, under any of the other Financing Agreements, the Uniform Commercial Code or other applicable law, are cumulative, not exclusive and enforceable, in Lender's discretion, alternatively, successively, or concurrently on any one or more occasions, and shall include, without limitation, the right to apply to a court of equity

for an injunction to restrain a breach or threatened breach by Guarantor of this Agreement or any of the other Financing Agreements. Lender may, at any time or times, proceed directly against Guarantor or any Obligor to collect the Obligations without prior recourse to the Collateral.

(b) Without limiting the foregoing, at any time an Event of Default exists or has occurred and is continuing, Lender may, in its discretion and without limitation, (i) accelerate the payment of all Obligations and demand immediate payment thereof to Lender (provided, that, upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h) of the Loan Agreement, all Obligations shall automatically become immediately due and payable), (ii) with or without judicial process or the aid or assistance of others, enter upon any premises on or in which any of the Collateral may be located and take possession of the Collateral or complete processing, manufacturing and repair of all or any portion of the Collateral, (iii) require Guarantor, at Guarantor's expense, to assemble and make available to Lender any part or all of the Collateral at any place and time designated by Lender, (iv) collect, foreclose, receive, appropriate, setoff and realize upon any and all Collateral, (v) remove any or all of the Collateral from any premises on or in which the same may be located for the purpose of effecting the sale, foreclosure or other disposition thereof or for any other purpose, (vi) sell, lease, transfer, assign, deliver or otherwise dispose of any and all Collateral (including entering into contracts with respect thereto, public or private sales at any exchange, broker's board, at any office of Lender or elsewhere) at such prices or terms as Lender may deem reasonable, for cash, upon credit or for future delivery, with the Lender having the right to purchase the whole or any part of the Collateral at any such public sale, all of the foregoing being free from any right or equity of redemption of Guarantor, which right or equity of redemption is hereby expressly waived and released by Guarantor. If any of the Collateral is sold or leased by Lender upon credit terms or for future delivery, the Obligations shall not be reduced as a result thereof until payment therefor is finally collected by Lender. If notice of disposition of Collateral is required by law, five (5) days' prior notice by Lender to Guarantor designating the time and place of any public

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sale or the time after which any private sale or other intended disposition of Collateral is to be made, shall be deemed to be reasonable notice thereof and Guarantor waives any other notice. In the event Lender institutes an action to recover any Collateral or seeks recovery of any Collateral by way of prejudgment remedy, Guarantor waives the posting of any bond which might otherwise be required.

(c) Lender may apply the cash proceeds of Collateral actually received by Lender from any sale, lease, foreclosure or other disposition of the Collateral to payment of the Obligations, in whole or in part and in such order as Lender may elect, whether or not then due. Guarantor shall remain liable to Lender for the payment of any deficiency with interest at the highest rate provided for in the Loan Agreement and all costs and expenses of collection or enforcement, including attorneys' fees and legal expenses.

SECTION VII. JURY TRIAL WAIVER; OTHER WAIVERS AND CONSENTS; GOVERNING LAW

7.1. Governing Law; Choice of Forum; Service of Process; Jury Trial Waiver.

(a) The validity, interpretation and enforcement of this Agreement and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto, whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of Texas (without giving effect to principles of conflicts of law).

(b) Guarantor irrevocably consents and submits to the non-exclusive jurisdiction of the State of Texas and the United States

District Court for the Northern District of Texas and waives any objection based on venue or forum non conveniens with respect to any action instituted therein arising under this Agreement or any of the other Financing Agreements or in any way connected or related or incidental to the dealings of Guarantor and Lender in respect of this Agreement or the other Financing Agreements or the transactions related hereto or thereto, in each case whether now existing or hereafter arising, and whether in contract, tort, equity or otherwise, and agrees that any dispute with respect to any such matters shall be heard only in the courts described above (except that Lender shall have the right to bring any action or proceeding against Guarantor or its property in the courts of any other jurisdiction which Lender deems necessary or appropriate in order to realize on the Collateral or to otherwise enforce its rights against Guarantor or its property).

(c) Guarantor hereby waives personal service of any and all process upon it and consents that all such service of process may be made by certified mail (return receipt requested) directed to its address set forth on the signature pages hereof and service so made shall be deemed to be completed five (5) days after the same shall have been so deposited in the U.S. mails, or, at Lender's option, by service upon Guarantor in any other manner provided under the rules of any such courts. Within thirty (30) days after such service, Guarantor shall appear in answer to such process, failing which Guarantor shall be deemed in default and judgment may be entered by Lender against Guarantor for the amount of the claim and other relief requested.

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(d) GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (i) ARISING UNDER THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR (ii) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF GUARANTOR AND LENDER IN RESPECT OF THIS AGREEMENT OR ANY OF THE OTHER FINANCING AGREEMENTS OR THE TRANSACTIONS RELATED HERETO OR THERETO IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE. GUARANTOR HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY AND THAT GUARANTOR OR LENDER MAY FILE AN ORIGINAL COUNTERPART OF A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

(e) Lender shall not have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Lender that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Lender shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of this Agreement and the other Financing Agreements.

7.2. Waiver of Notices. Guarantor hereby expressly waives demand, presentment, protest and notice of protest and notice of dishonor with respect to any and all instruments and commercial paper, included in or evidencing any of the Obligations or the Collateral, and any and all other demands and notices of any kind or nature whatsoever with respect to the Obligations, the Collateral and this Agreement, except such as are expressly provided for herein. No notice to or demand on Guarantor which Lender may elect to give shall entitle Guarantor to any other or further notice or demand in the same, similar or other circumstances.

7.3. Amendments and Waivers. Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Lender, and as to amendments, as also signed by an authorized officer of Guarantor. Lender shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies

unless such waiver shall be in writing and signed by an authorized officer of Lender. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Lender of any right, power and/or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power and/or remedy which Lender would otherwise have on any future occasion, whether similar in kind or otherwise.

7.4. Waiver of Counterclaims. Guarantor waives all rights to interpose any claims, deductions, setoffs or counterclaims of any nature (other than compulsory counterclaims) in any

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action or proceeding with respect to this Agreement, the Obligations, the Collateral or any matter arising therefrom or relating hereto or thereto.

7.5. Indemnification. Guarantor shall indemnify and hold Lender, and its directors, agents, employees and counsel, harmless from and against any and all losses, claims, damages, liabilities, costs or expenses imposed on, incurred by or asserted against any of them in connection with any litigation, investigation, claim or proceeding commenced or threatened related to the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, any other Financing Agreements, or any undertaking or proceeding related to any of the transactions contemplated hereby or any act, omission, event or transaction related or attendant thereto, including amounts paid in settlement, court costs, and the fees and expenses of counsel. To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it violates any law or public policy, Guarantor shall pay the maximum portion which it is permitted to pay under applicable law to Lender in satisfaction of indemnified matters under this Section. The foregoing indemnity shall survive the payment of the Obligations, the termination of this Agreement and the termination or non-renewal of the Loan Agreement.

SECTION VIII. MISCELLANEOUS

8.1. Notices. All notices, requests and demands hereunder shall be in writing and (a) made to Lender at 1201 Main Street, Suite 1625, Dallas, Texas 75202 and to Guarantor at its chief executive office set forth below, or to such other address as either party may designate by written notice to the other in accordance with this provision, and (b) deemed to have been given or made: if delivered in person, immediately upon delivery; if by telex, telegram or facsimile transmission, immediately upon sending and upon confirmation of receipt; if by nationally recognized overnight courier service with instructions to deliver the next business day, one (1) business day after sending; and if by certified mail, return receipt requested, five (5) days after mailing.

8.2. Partial Invalidity. If any provision of this Agreement is held to be invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Agreement as a whole, but this Agreement shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

8.3. Successors. This Agreement, the other Financing Agreements and any other document referred to herein or therein shall be binding upon Guarantor and its successors and assigns and inure to the benefit of and be enforceable by Lender and its successors and assigns, except that Guarantor may not assign its rights under this Agreement, the other Financing Agreements and any other document referred to herein or therein without the prior written consent of Lender.

8.4. Entire Agreement. This Agreement, the other Financing Agreements, any supplements hereto or thereto, and any instruments or documents delivered or to be delivered in connection herewith or therewith represents the entire agreement and understanding concerning

Security Agreement

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the subject matter hereof and thereof between the parties hereto, and supersede all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written. In the event of any inconsistency between the terms of this Agreement and any schedule or exhibit hereto, the terms of this Agreement shall govern.

8.5. Additional Financings. In connection with any working capital financing Guarantor receives from another financial institution or commercial lender ("New Lender"), Guarantor may request that Lender subordinate its interest in the Collateral (excluding the IBM Inventory) and Lender will not unreasonably withhold its consent provided that:

(a) No Event of Default shall have occurred or be continuing;

(b) Lender and New Lender shall have entered into a subordination agreement in form and substance satisfactory to Lender in all respects in its sole discretion;

(c) Lender shall be satisfied that the IBM Inventory shall be segregated from the other property of Guarantor and its customers and Lender shall have a perfected priority security interest in the IBM Inventory; and

(d) The books and records maintained on behalf of Borrower shall be kept separately from Guarantor's other books and records and Guarantor shall have conspicuously noted on the Borrower's books and records that such books and records are the property of Borrower.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, Guarantor has caused these presents to be duly executed as of the day and year first above written.

GUARANTOR:

PRIORITY FULFILLMENT SERVICES, INC.

By:

Thomas J. Madden
Executive Vice President and
Chief Financial Officer

CHIEF EXECUTIVE OFFICE:

500 North Central Expressway, 5th Floor
Plano, Texas 75074

Security Agreement

Dated as of March 29, 2002

To: Congress Financial Corporation (Southwest) ("Lender")

Re: Inducement Letter

Gentlemen:

Each of the undersigned, Priority Fulfillment Services, Inc., a Delaware corporation ("PFS"), and PFSweb, Inc., a Delaware corporation ("PFSweb"), directly or indirectly manages certain business operations and other affairs of Supplies Distributors, Inc. ("Borrower"). Capitalized terms used but not otherwise defined in this letter agreement, are defined in that certain Loan and Security Agreement, dated as of March 29, 2002, by and between Lender and Borrower (as amended from time to time, the "Loan Agreement").

PFS and PFSweb will each derive substantial direct or indirect benefit from the extension of credit to Borrower pursuant to the Loan Agreement.

In order to induce the Lender to enter into the Loan Agreement and the Financing Agreements and to consummate the transactions contemplated thereby, and in consideration therefor, the parties hereto agree as follows:

1. If at any time the aggregate amount of Revolving Loans shall exceed the amounts available to Borrower in accordance with Section 2.1 of the Loan Agreement (the amount of any such excess, the "Overadvance Amount") then PFS agrees that within two (2) Business Days from such time, PFS shall make an infusion of capital into Borrower, in an amount not less than the Overadvance Amount, in the form of equity or indebtedness that shall be, in either case, subject to and subordinate in right of payment to the right of Lender to receive the prior final payment and satisfaction in full of the Obligations in accordance with the terms of that certain Notes Payable Subordination Agreement dated as of the date hereof by PFS in favor of Lender or on such other terms and conditions as may be satisfactory to Lender in its sole discretion.

2. PFSweb shall deliver to Lender as soon as available and in any event (i) within ninety (90) days after the end of each fiscal year of PFSweb the Form 10-K filed with the Securities and Exchange Commission for such fiscal year; (ii) within forty-five (45) days after the end of each fiscal quarter of PFSweb, the Form 10-Q Quarterly Report filed with the Securities and Exchange Commission for such quarter; (iii) within five (5) days after the same are sent, copies of all financial statements and reports which PFSweb sends to its stockholders, and (iv) within five (5) days after the same are filed, copies of all financial statements and reports which PFSweb may make to, or file with, the Securities and Exchange Commission or any successor or analogous governmental authority. In the event PFSweb is no longer a public company, PFSweb shall deliver to Lender the same financial statements, notices and such other documentation relating to PFSweb as are required to be delivered or reported by Borrower to Lender pursuant to Section 9.6 of the Loan Agreement.

Inducement Letter

In the event of a breach of this letter agreement by PFS or PFSweb, Lender may proceed to protect and enforce its rights by an action at law, a suit in equity or other appropriate proceeding whether for the specific performance of this agreement or for an injunction against a violation of any of the terms and conditions of this letter agreement. The provisions of this letter agreement shall continue in full force and effect notwithstanding the commencement of any case under Title 11 of the United States Code by or against Borrower or any of its property.

This letter agreement has been executed, delivered and accepted at and shall be deemed to have been made in Dallas, Texas, and shall be interpreted and the rights and obligations of the parties under this letter agreement shall be governed by, and construed and interpreted in accordance with, the internal laws

of the State of Texas. This letter agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, transferees and assigns. Neither this letter agreement nor any of the terms hereof may be amended, waived, discharged or terminated unless such amendment, waiver, discharge or termination is in writing signed by each of the parties hereto. This letter agreement may be executed by one or more of the parties hereto in any number of separate counterparts, each of which shall be an original, but all of which shall constitute but one agreement.

[REMAINDER OF PAGE INTENTIONALLY BLANK; SIGNATURE PAGE FOLLOWS]

Inducement Letter

IN WITNESS WHEREOF, each of the undersigned have executed this Inducement Letter as of the day and year first written above.

PRIORITY FULFILLMENT SERVICES, INC.
a Delaware corporation

By: _____
Thomas J. Madden
Chief Financial Officer and
Executive Vice President

PFSWEB, INC.
a Delaware corporation

By: _____
Thomas J. Madden
Chief Financial Officer and
Executive Vice President

ACKNOWLEDGED AND AGREED TO BY:

CONGRESS FINANCIAL CORPORATION (SOUTHWEST)

By: _____
Mike Sheff
Senior Vice President

Inducement Letter