

FORM 10-Q

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Quarterly Period Ended December 31, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-28275

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

----- DELAWARE ----- (State of Incorporation)	----- 75-2837058 ----- (I.R.S. Employer I.D. No.)
500 NORTH CENTRAL EXPRESSWAY, PLANO, TEXAS ----- (Address of principal executive offices)	75074 ----- (Zip Code)

Registrant's telephone number, including area code: (972) 881-2900  
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes \_\_\_\_\_ No  \_\_\_\_\_

At February 3, 2000 there were 17,870,000 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES  
FORM 10-Q  
DECEMBER 31, 1999

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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	December 31, 1999	March 31, 1999
	-----	-----
	(unaudited)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 30,798	\$ 587
Accounts receivable, net of allowance for doubtful accounts of \$383 and \$635 at December 31, 1999 and March 31, 1999, respectively .....	8,260	22,190
Inventories, net .....	--	29,856
Prepaid expenses and other current assets .....	1,419	997
Deferred tax asset .....	331	453
	-----	-----
Total current assets .....	40,808	54,083
	-----	-----
NET PROPERTY AND EQUIPMENT .....	17,674	2,711
OTHER ASSETS .....	8,624	12,263
	-----	-----
Total assets .....	\$ 67,106	\$ 69,057
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Trade accounts payable .....	\$ 7,207	\$ 38,329
Accrued expenses .....	4,987	1,118
Payable to Daisytek .....	6,613	--
	-----	-----
Total current liabilities .....	18,807	39,447
	-----	-----
PAYABLE TO DAISYTEK	--	29,029
	-----	-----
LONG-TERM DEBT, less current portion .....	225	--
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding .....	--	--
Common stock, \$0.001 par value; 40,000,000 shares authorized; 17,870,000 shares issued and outstanding .....	18	--
Additional paid-in capital .....	50,817	--
Retained deficit .....	(2,447)	--
Deferred compensation expense .....	(160)	--
Daisytek's net equity investment .....	--	712
Accumulated other comprehensive loss .....	(154)	(131)
	-----	-----
Total shareholders' equity .....	48,074	581
	-----	-----
Total liabilities and shareholders' equity .....	\$ 67,106	\$ 69,057
	=====	=====

The accompanying notes are an integral part of these unaudited interim condensed consolidated 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 December 31,		Nine Months Ended December 31,	
	1999	1998	1999	1998
REVENUES:				
Product revenue .....	\$ --	\$ 23,635	\$ 55,778	\$ 64,962
Service fee revenue .....	10,868	2,026	17,872	4,787
	-----	-----	-----	-----
Total revenues .....	10,868	25,661	73,650	69,749
	-----	-----	-----	-----
COSTS OF REVENUES:				
Cost of product revenue .....	--	22,265	52,639	61,508
Cost of service fee revenue .....	9,772	1,317	14,670	3,472
	-----	-----	-----	-----
Total costs of revenues .....	9,772	23,582	67,309	64,980
	-----	-----	-----	-----
Gross profit .....	1,096	2,079	6,341	4,769
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES .....				
	6,593	1,850	12,464	4,426
	-----	-----	-----	-----
Income (loss) from operations .....	(5,497)	229	(6,123)	343
INTEREST EXPENSE (INCOME), net .....				
	137	(52)	787	87
	-----	-----	-----	-----
Income (loss) before income taxes .....	(5,634)	281	(6,910)	256
PROVISION (BENEFIT) FOR INCOME TAXES .....				
	(857)	117	(1,360)	108
	-----	-----	-----	-----
NET INCOME (LOSS) .....	\$ (4,777)	\$ 164	\$ (5,550)	\$ 148
	=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE:				
Basic and diluted .....	\$ (0.31)	\$ 0.01	\$ (0.38)	\$ 0.01
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic and diluted .....	15,447	14,305	14,687	14,305
	=====	=====	=====	=====

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN  
SHAREHOLDERS' EQUITY  
(IN THOUSANDS, EXCEPT SHARE DATA)

	Nine Months Ended December 31, 1999	
	Shares	Amounts
	-----	-----
Common stock:		
Balance, beginning of year.....	--	\$ --
Issuance of common stock to Daisytek.....	14,305,000	14
Initial public offering.....	3,565,000	4
	-----	-----
Balance, end of period.....	17,870,000	\$ 18
	=====	=====
Additional paid-in capital:		
Balance, beginning of year.....		\$ --
Issuance of common stock to Daisytek.....		6
Deferred compensation expense - issuance of stock options.....		192
Contribution of Daisytek's net equity investment.....		(2,391)
Initial public offering, net proceeds.....		53,010
		-----
Balance, end of period.....		\$ 50,817
		=====
Retained deficit:		
Balance, beginning of year.....		\$ --
Net loss subsequent to initial public offering.....		(2,447)
		-----
Balance, end of period.....		\$ (2,447)
		=====
Deferred compensation expense:		
Balance, beginning of year.....		\$ --
Deferred compensation expense - issuance of stock options.....		(192)
Stock based compensation expense.....		32
		-----
Balance, end of period.....		(160)
		=====
Daisytek's net equity investment:		
Balance, beginning of year.....		\$ 712
Net loss prior to initial public offering.....		(3,103)
Contribution of Daisytek's net equity investment.....		2,391
		-----
Balance, end of period.....		\$ --
		=====
Accumulated other comprehensive loss:		
Balance, beginning of year.....		\$ (131)
Other comprehensive loss - foreign currency translation adjustment..		(23)
		-----
Balance, end of period.....		\$ (154)
		=====
Total shareholders' equity.....		\$ 48,074

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

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PFSWEB, INC. AND SUBSIDIARIES

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

	Nine Months Ended December 31,	
	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss) .....	\$ (5,550)	\$ 148
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization .....	1,397	166
Non cash compensation expense .....	32	--
Provision for doubtful accounts .....	198	234
Deferred income tax provision (benefit) .....	122	(135)
Changes in operating assets and liabilities:		
Accounts receivable .....	13,743	(9,442)
Inventories, net .....	29,856	(21,440)
Prepaid expenses and other current assets .....	(422)	(21)
Trade accounts payable and accrued expenses .....	(27,261)	16,183
Net cash provided by (used in) operating activities .....	12,115	(14,307)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment .....	(16,370)	(1,545)
Decrease (increase) in other assets .....	3,639	(9,466)
Net cash used in investing activities .....	(12,731)	(11,011)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in long-term debt .....	225	--
Issuance of common stock to Daisytek .....	20	--
Net proceeds from initial public offering of common stock .....	53,014	--
Increase (decrease) in payable to Daisytek, net .....	(22,416)	25,354
Net cash provided by financing activities .....	30,843	25,354
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS .....	(16)	(127)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	30,211	(91)
CASH AND CASH EQUIVALENTS, beginning of period .....	587	113
CASH AND CASH EQUIVALENTS, end of period .....	\$ 30,798	\$ 22

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

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PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION:

In June 1999, Daisytek International Corporation ("Daisytek") created a separate wholly-owned subsidiary named PFSweb, Inc. (the "Company" or "PFSweb"), a Delaware corporation, to become a holding company for certain of Daisytek's wholly-owned subsidiaries ("PFS") in contemplation of an initial public offering (the "Offering") of PFSweb. Daisytek contributed \$20,000 for 14,305,000 shares of common stock of PFSweb. In December 1999, PFSweb sold 3,565,000 shares of common stock, including the underwriters' over-allotment, at a price of \$17 per share (See Note 2). Simultaneous with the completion of the Offering, Daisytek contributed to PFSweb all the assets, liabilities and equity comprising PFS. For periods prior to the completion of the Offering the accompanying financial statements reflect the business operations of PFS.

PFSweb is an international provider of transaction management services to both traditional and e-commerce companies in the United States, Canada and Europe. The company offers such services as order management, customer care services, billing services, credit management and collection, information management and fulfillment and distribution.

Daisytek, which currently owns approximately 80.1% of the outstanding shares of PFSweb's common stock, has announced that it plans to divest its interest in PFSweb. The divestiture involves Daisytek distributing to holders of its common stock all of its interest in PFSweb through a spin-off transaction in which the shares of PFSweb would be distributed to Daisytek common stockholders on a pro-rata basis. Daisytek has filed a ruling request with the Internal Revenue Service ("IRS") with regard to the tax-free treatment of the distribution of Daisytek's remaining ownership of PFSweb to the Daisytek shareholders. Daisytek has announced that it currently expects a response from the IRS within four to six months and plans to spin-off its remaining ownership of PFSweb in calendar year 2000. The spin-off is subject to certain conditions, and the Company cannot provide assurance as to whether or when it will occur.

The unaudited interim condensed consolidated financial statements as of December 31, 1999, and for the nine months ended December 31, 1999 and 1998, 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 generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. The unaudited interim condensed consolidated financial statements are presented on a carve-out basis and reflect the consolidated results of operations and assets and liabilities of PFSweb. For all periods presented, certain expenses reflected in the unaudited interim condensed consolidated financial statements include an allocation of certain Daisytek corporate expenses and infrastructure costs. Management believes that the methods used to allocate expenses are reasonable, although the cost of services could be higher if obtained from other sources. In addition, certain service fee revenue and cost of service fee revenue have been reflected by PFSweb for services subcontracted to PFSweb by Daisytek. The service fee revenue, cost of service fee revenue and allocated expenses have been reflected on bases that Daisytek and PFSweb consider to be a reasonable reflection of the services provided and revenue earned by PFSweb and the utilization of services provided by Daisytek and the benefit received by PFSweb. The financial information included herein may not reflect the consolidated financial position, operating results, and cash flows of PFSweb in the future or what it would have been had PFSweb been a separate, stand-alone entity during the periods presented.

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 December 31, 1999, its results of operations and its results of cash flows for the nine months ended December 31, 1999 and 1998. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

The unaudited interim condensed combined financial statements should be read in conjunction with the audited financial statements and accompanying notes of the Company included in the Company's Prospectus as filed with the SEC on December 2, 1999 (the "Company's Prospectus"). Accounting policies

PFSWEB, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (CONTINUED)

used in the preparation of the unaudited interim condensed consolidated financial statements are consistent in all material respects with the accounting policies described in the notes to consolidated financial statements in the Company's Prospectus.

2. PFSWEB COMMON STOCK

In December 1999, PFSweb successfully completed the Offering and sold 3,565,000 shares of common stock at \$17 per share. Net proceeds from the Offering aggregated approximately \$53 million and were used to repay its payable to Daisytek of approximately \$28 million, of which approximately \$22 million was paid as of December 31, 1999, and to acquire from Daisytek all fixed assets in its Memphis distribution facility, as well as certain assets providing information technology services for approximately \$5 million. The remaining net proceeds are intended to be used for currently anticipated annual capital expenditures of \$7 - \$10 million, a portion of which may be financed through capital or operating leases, for general working capital, the remaining balance of the payable to Daisytek and possible acquisitions.

PFSweb has authorized 6,000,000 shares of common stock for issuance under two 1999 stock option plans (the "Option Plans"). The Option Plans, which are currently administered by the Compensation Committee of the Board of Directors of PFSweb provide for the granting of incentive awards in the form of stock options to directors, executive management, key employees, and outside consultants of PFSweb. The right to purchase shares under the stock option agreements typically vest over a three year period. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued at fair market value. In July 1999, PFSweb issued options to purchase 1,344,250 common shares at \$10.45, of which 35,000 of these options were issued to a non-employee of the Company. The Company recorded \$192,000 of deferred compensation expense associated with this grant. In August 1999, PFSweb issued options to purchase 32,250 common shares at \$13.00. Through December 31, 1999, options to purchase an additional 47,500 shares at \$13.00 to \$17.00 per share were issued. As of December 31, 1999 there were an aggregate of 1,392,500 options outstanding with a weighted average exercise price of \$10.70 per share. All of these options are subject to a three year vesting schedule under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off of PFSweb from Daisytek. Certain of the Company's employees have been granted Daisytek stock options which may convert to PFSweb stock options at the spin-off date, and are not included in the data above.

3. COMPREHENSIVE INCOME (LOSS) (IN THOUSANDS):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	1999	1998	1999	1998
Net income (loss) .....	\$ (4,777)	\$ 164	\$ (5,550)	\$ 148
Comprehensive income adjustments:				
Foreign currency translation adjustment .....	23	(136)	(23)	(193)
Comprehensive income (loss) .....	\$ (4,754)	\$ 28	\$ (5,573)	\$ (45)

4. NET INCOME (LOSS) PER COMMON SHARE AND COMMON SHARE EQUIVALENT:

Basic and diluted net income or loss per common share attributable to PFSweb common stock were determined based on dividing the income or loss available to common stockholders by the weighted-average number of common shares outstanding. For purposes of this calculation, the 14,305,000 shares of PFSweb issued prior to the Offering were treated as outstanding for all periods presented prior to the Offering. There were no potentially dilutive securities

outstanding during the periods presented prior to the Offering. During the three and nine month periods ended December 31, 1999, outstanding options to purchase 1,392,500 common shares were anti-dilutive and have been excluded from the weighted average share computation.

PFSWEB, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (CONTINUED)

5. TRANSACTIONS WITH DAISYTEK AND OTHER RELATED PARTIES:

The Company's costs and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The methods used for allocation or expenses from Daisytek were either (i) percentage of: revenue, shipped orders, or number of employees or (ii) management's best estimate. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis. Management estimates that incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs would have been approximately \$0.4 million and \$1.5 million for the three and nine months ended December 31, 1999, respectively, and \$0.5 million and \$1.6 million for the three and nine months ended December 31, 1998, respectively.

The Company's product revenue from sales to Daisytek was zero and \$1.7 million for the three months ended December 31, 1999 and 1998, respectively, and \$7.2 million and \$10.4 million for the nine months ended December 31, 1999 and 1998, respectively.

During the quarter ended September 30, 1999 and in connection with the restructuring of certain IBM master distribution agreements, the Company transferred to Daisytek certain related product inventory, accounts receivable and accounts payable that it held under its prior agreements. In consideration of this transfer, the Company received the net book value of these assets and liabilities of approximately \$20 million and reduced its payable to Daisytek by a corresponding amount.

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, transition services agreement and a master separation agreement which are expected to have a significant impact on the financial position and results of operations of PFSweb.

In addition, included in the financial statements are service fee revenues and cost of service fee revenue which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements.

Service fee revenues charged to Daisytek under (i) the new IBM contracts, 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 \$4.1 million and \$4.9 million for the three and nine months ended December 31, 1999. Service fee revenues applicable to the subcontracted service were \$0.2 million and \$0.6 for the three and nine months ended December 31, 1998.

In May 1999, the Company entered into an agreement to provide services to a certain company. An executive officer and director of PFSweb serves on the Board of Directors of this company. Service fee revenue earned from this company was approximately \$0.8 million for both the three and nine months ended December 31, 1999.

PFS had previously guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). On October 29, 1999, Daisytek



amended the Facility. This amendment also provided for the release of PFS as guarantor on the Facility upon (i) the effective date of the Offering of the shares of common stock of PFSweb and (ii) the payment from PFSweb to Daisytek in settlement of the outstanding payable to Daisytek. In satisfaction of these conditions, PFS has been released from its guarantee. Additionally, this amendment also prohibits Daisytek from advancing funds to PFSweb following the completion of the Offering, except in the normal course of business.

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PFSWEB, INC. AND SUBSIDIARIES  
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL  
STATEMENTS (CONTINUED)

Simultaneous with the Offering, PFSweb acquired all of Daisytek's fixed assets in the Memphis distribution center, as well as certain assets providing information technology services for approximately \$5 million. In conjunction with this acquisition, as well as certain other recent lease obligations, PFSweb has assumed future incremental operating lease commitments of approximately \$12 million. These leases, for facilities, and warehouse, office, transportation and other equipment, expire in various years through fiscal year 2005.

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

The following discussion 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

The matters discussed in this report on Form 10-Q other than historical information, and, in particular, information regarding future revenue, earnings and business plans and goals, consist of forward-looking information under the Private Securities Litigation Reform Act of 1995, and are subject to and involve risks and uncertainties which could cause actual results to differ materially from the forward-looking information. These risks and uncertainties include, but are not limited to, the "Risk Factors" set forth in the Company's Prospectus. These include, among others, our reliance on the fees generated by the transaction volume or product sales of our clients, trends in the market for our services, trends in e-commerce, whether we can continue and manage growth, changes in the trend toward outsourcing, increased competition, effects of changes in profit margins, the unknown effects of possible system failures and rapid changes in technology, trends in government regulation, and our relationship with and separation from Daisytek. This report on Form 10-Q also contains other forward-looking statements, including those related to an anticipated spin-off from Daisytek. Consummation of the spin-off is uncertain and realization of the anticipated results could take longer than expected and implementation difficulties and market factors could alter anticipated results. Actual results could differ materially from those projected in the forward-looking statements.

OVERVIEW

We are an international provider of transaction management services to both traditional and e-commerce companies. We derive our revenues from a broad range of services, including order management, customer care services, billing services, information management and fulfillment and distribution services. Our fulfillment and distribution services are conducted at our warehouses and include picking, packing and shipping our clients' customer orders. We offer our services as an integrated solution, which enables our clients to outsource their complete transaction management needs to a single source and to focus on their core competencies. We currently provide transaction management services to over 30 clients that operate in a range of vertical markets, including apparel, computer products, printers, sporting goods and consumer electronics, among

others.

We act as a virtual infrastructure for our clients, which helps them enhance their traditional commerce operations and meet the operational challenges associated with the deployment of their e-commerce initiatives. We believe we offer a unique comprehensive integrated solution which handles the lifecycle of the transaction "from the click of a mouse, to the knock at the house" (SM). This solution enables our clients to focus on their core business, products and services while at the same time quickly and efficiently implementing traditional and e-commerce business initiatives. By utilizing our services, our clients are able to:

**Quickly Capitalize on E-commerce Market Opportunities.** Our services enable our clients to rapidly implement their e-commerce strategies and take advantage of e-commerce opportunities without lengthy start-up and integration efforts. Our services allow our clients to deliver consistent quality of service as transaction volumes grow and to handle daily and seasonal peak periods. Through our international locations and capabilities, we enable our clients to use the broad reach of the Internet and e-commerce to sell their products almost anywhere in the world.

**Improve the Customer Experience.** We enable our clients to provide their customers with a positive buying experience thereby maintaining and promoting brand loyalty. Through our use of advanced technology, we can respond directly to customer inquiries by e-mail, voice or data communication and assist them with on-line ordering and product information. We believe we offer our clients a "world class" level of service, including 24 hour, seven day a week customer care service centers and a high order accuracy.

**Minimize Investment and Improve Operating Efficiencies.** We provide our clients with access to a wide array of services that cover a broad spectrum of e-commerce transaction management issues, eliminating

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their need to expend management time and resources to coordinate these services from different providers. By utilizing our services, our clients can capitalize on our economies of scale and expertise to grow their e-commerce business without incurring the substantial fixed costs necessary to create and maintain their own transaction management infrastructure. Our clients also have the flexibility to purchase any or all of our offered services according to their transaction volume and existing transaction management infrastructure so that they do not have to invest scarce capital resources as their business grows.

**Access a Sophisticated Technology Infrastructure.** We provide our clients with ready access to a sophisticated technology infrastructure, which is designed to interface seamlessly with their systems. We provide our clients with vital product and customer information which can be immediately available to them on their own systems for use in data mining, analyzing sales and marketing trends, monitoring inventory levels and performing other transaction management functions.

The key elements of our business strategy are to:

**Target Clients with Major Brand Names** We intend to aggressively expand our business by targeting brand names who are seeking to enter the e-commerce marketplace or introduce new products or business programs. We believe that the electronic commerce marketplace will be led by companies with major brand names and our focus on these companies will provide us with meaningful opportunities to grow along with our clients' e-commerce initiatives.

**Expand Existing Client Relationships.** By providing superior operating results, we believe we can expand relationships with existing clients to serve additional products and business segments and to provide additional services. Our objective is to integrate ourselves as our clients' "virtual infrastructure" so that we become a critical component of their transaction management process across the enterprise. Based upon our clients' needs, we plan to introduce new services to solve e-commerce transaction processing problems as they emerge. We also intend to continue our commitment to invest in state-of-the-art technology, equipment and systems to provide new, high-quality, innovative services to our existing clients and to attract new clients.

Promote Our PFSweb Brand. We intend to build PFSweb brand awareness by expanding the number of clients, increasing our advertising in trade journals and other print media and by further participation in trade shows and similar expositions. We also intend to increase our Internet advertising and search engine presence.

Seek Strategic Alliances and Acquisitions. We intend to pursue strategic alliances with Web site designers, Web hosting services, e-commerce software companies and other providers of Internet related services to assist in developing relationships with major brand names that are entering the e-commerce marketplace. We may also consider acquisitions of synergistic e-commerce businesses in order to offer a complete Internet implementation solution to clients looking to introduce the sale of their products over the Internet.

Expand Our International Presence. We intend to expand the availability of our services throughout the world so that we can enhance our international-commerce transaction processing solutions. For example, in response to market opportunities, we intend to expand our multi-lingual call center services and foreign currency order processing.

#### ADJUSTED FINANCIAL PRESENTATION

We believe our historical financial statements may not provide a meaningful comparison to our future financial statements. This is because the financial presentation of our operations in the future will be different from what they have been historically, as described below.

In 1996, we entered into an agreement with the printer supplies division of IBM. Under this agreement, we provided IBM with various transaction management services, such as call center services and order fulfillment and distribution. We also served as an IBM master distributor of printer supply products. Under this master distributor arrangement, we purchased the printer supply products from IBM and resold them to IBM customers. Following our initial agreement with the printer supplies division, we entered into several

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similar agreements with other divisions of IBM, both in the U.S. and Europe, and expanded our then existing agreements to include more product lines.

During the quarter ended September 30, 1999, we, Daisytek and IBM entered into new agreements to conform to our current business model. Under these new agreements, Daisytek will act as the master distributor of the IBM products and we will continue to provide various transaction management services. As part of this restructuring, we transferred to Daisytek the IBM product inventory, which we held as the master distributor, together with our customer accounts receivable and our accounts payable owing to IBM in respect of the product inventory. The purpose of the restructuring was to separate the master distributor and transaction management responsibilities between ourselves and Daisytek so that each could focus on its core competencies.

As a result of the restructuring of the IBM agreements, our historical financial statements may not provide a meaningful comparison to our future financial statements. This is because, as a master distributor under our prior agreements, we recorded revenue as product revenue as we sold the product to IBM customers. Similarly, our gross profit was based upon the difference between our revenue from product sales and the cost of purchasing the product from IBM. In the future, however, our revenue under the new IBM agreements will be service fee revenue that will be payable by Daisytek and will be based upon a variable percentage of Daisytek's gross profit arising from its IBM product sales.

As a result of this restructuring of our IBM agreements, our total revenues arising under our new IBM agreements will be reduced, as compared to the total revenues arising under the prior IBM agreements. However, our gross profit margin as a percent of service fee revenue under the new IBM agreements is anticipated to be significantly higher as compared to our gross profit margin as a percent of product revenue under the prior IBM agreements.

In addition, upon completion of the Offering in December 1999, we entered into a new transaction management services agreement with Daisytek. Under this agreement, we provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business. We receive service fee revenue

based upon a percentage of Daisytek's shipped product revenue. Consequently, our historical financial statements reflect the service fee revenue we received from Daisytek under this new agreement for only one month in the three and nine months results ended December 31, 1999.

Additionally, upon completion of the Offering, Daisytek transferred to us fixed assets and other assets which will be used in our business. We paid to Daisytek a portion of the net proceeds of the Offering and assumed capital and operating lease obligations related to these assets.

Our historical financial statements for the three and nine months ended December 31, 1999, also include incremental costs on new contract implementations as well as certain incremental selling, general and administrative expenses.

We have set forth below an adjusted presentation of our total historical revenue and cost of revenue. This presentation shows, retroactively, what our service fee revenue and cost of service fee revenue would have been if (i) our modified agreement with IBM had been in effect during the periods presented, (ii) our new agreement with Daisytek had been in effect for the entire calendar year ended 1999, (iii) our acquisition of the assets and liabilities that Daisytek transferred to us upon completion of the Offering had occurred as of the beginning of the calendar year 1999, and (iv) for the three months and calendar year ended December 31, 1999, an adjustment was made to the costing methodology applied to start-up activity on new client implementations.

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ADJUSTED FINANCIAL PRESENTATION

	Three Months Ended December 31, ----- 1999 -----	Calendar Year Ended December 31, ----- 1999 -----
Service fee revenue .....	\$ 13,965	\$ 42,287
Cost of service fee revenue ...	9,349	26,781
Service fee gross profit .....	4,616	15,506
Service fee gross profit margin	33.1%	36.7%

We based the adjusted operating data on available information and certain estimates and assumptions. We believe that such assumptions provide a reasonable basis for presenting our results, adjusting for the transactions described above. This adjusted financial information does not reflect what our operating income or net income would have been during the periods presented or what our results of operations may be in the future.

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RESULTS OF OPERATIONS

	Three Months Ended December 31, -----		Nine Months Ended December 31, -----	
	1999	1998	1999	1998
	-----	-----	-----	-----
Product revenue .....	-- %	92.1%	75.7%	93.1%
Service fee revenue .....	100.0	7.9	24.3	6.9
Total revenues .....	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue)	--	94.2	94.4	94.7
Cost of service fee revenue (as % of service fee revenue) .....	89.9	65.0	82.1	72.5

Total costs of revenues .....	89.9	91.9	91.4	93.2
Gross profit .....	10.1	8.1	8.6	6.8
Selling, general and administrative expenses .....	60.7	7.2	16.9	6.3
Income (loss) from operations .....	(50.6)	0.9	(8.3)	0.5
Interest (income) expense, net .....	1.3	(0.2)	1.1	0.1
Income (loss) before income taxes .....	(51.9)	1.1	(9.4)	0.4
Provision (benefit) for income taxes .....	(7.9)	0.5	(1.9)	0.2
Net income (loss) .....	(44.0)%	0.6%	(7.5)%	0.2%

#### RESULTS OF OPERATIONS FOR THE INTERIM PERIODS ENDED DECEMBER 31, 1999 AND 1998

We believe our historical financial statements may not provide a meaningful comparison to our future financial statements. This is because the financial presentation of our operations in the future will be different from what they have been historically, as described above.

**Product Revenue.** Product revenue was zero for the three months ended December 31, 1999 as compared to \$23.6 million for the three months ended December 31, 1998. Product revenue was \$55.8 million for the nine months ended December 31, 1999 as compared to \$65.0 million for the nine months ended December 31, 1998. As stated above, during the quarter ended September 30, 1999, we, Daisytek and IBM entered into new agreements applicable to all of our IBM relationships. As a result of these agreements, the activities performed under these contracts since that date were accounted for as service fee revenue as opposed to product revenue. Prior to the impact of these new agreements, product revenue had increased as compared to prior periods due to the addition of our European IBM distribution agreement as well as growth from the existing North America IBM master distributor agreements. In future periods, we do not expect to have any product revenue.

**Service Fee Revenue.** Service fee revenue was \$10.9 million for the three months ended December 31, 1999 as compared to \$2.0 million during the three months ended December 31, 1998, an increase of \$8.9 million or 436.4%. Service fee revenue was \$17.9 million for the nine months ended December 31, 1999 as compared to \$4.8 million during the nine months ended December 31, 1998, an increase of \$13.1 million or 273.3%. The increase in service fee revenues over prior periods was due to the further expansion of existing contracts, the restructuring of all the IBM contracts, and new service contract relationships, including our new transaction management services agreement with Daisytek which commenced on the completion of the Offering in December 1999. Service fee revenue from existing contracts increased \$0.2 million and new service contract relationships added \$8.7 million for the three months ended December 31, 1999. Service fee revenue from existing contracts increased \$2.6 million and new service contract relationships added \$10.5 million for the nine months ended December 31, 1999. For the three and nine months ended December 31, 1999, new service fee revenue totaling \$3.9 million and \$4.3 million, respectively, included fees earned from Daisytek under our new transaction management services agreement, effective as of the Offering, and our new IBM contracts that, prior to the September 1999 quarter, would have been reported as product revenue.

**Cost of Product Revenue.** Cost of product revenue was zero during the three months ended December 31, 1999 as compared to \$22.3 million during the three months ended December 31, 1998. Cost of product revenue as a percent of product revenue was 94.2% during the three months ended December 31, 1998, with a resulting product gross profit margin of 5.8%. Cost of product revenue was \$52.6 million for the nine months ended December 31, 1999 as compared to \$61.5 million during the nine months ended December 31, 1998. Cost of product revenue as a percent of product revenue was 94.7% during the nine months ended December 31, 1998, with a resulting product gross profit margin of 5.3%. As a result of the new IBM arrangements, we do not expect to incur any cost of product revenue in future periods.

**Cost of Service Fee Revenue.** Cost of service fee revenue was \$9.8 million for the three months ended December 31, 1999 as compared to \$1.3 million during the three months ended December 31, 1998, an increase of \$8.5 million or 642.0%. The resulting service fee gross profit margin was 10.1% during the three months ended December 31, 1999 and 35.0% during the three months ended December 31,

1998. Cost of service fee revenue was \$14.7 million for the nine months ended December 31, 1999 as compared to \$3.5 million during the nine months ended December 31, 1998, an increase of \$11.2 million or 322.5%. The resulting service fee gross profit margin was 17.9% during the nine months ended December 31, 1999 and 27.5% during the nine months ended December 31, 1998. During both the three and nine months ended December 31, 1999, cost of service fee revenue increased related to a large number of new client implementations.

Gross Profit. Gross profit was \$1.1 million or 10.1% of revenues for the three months ended December 31, 1999 as compared to \$2.1 million or 8.1% of revenues for the three months ended December 31, 1998. The decrease in total gross profit resulted primarily from the increase in costs of service fee revenue, discussed above. Gross profit was a \$6.3 million or 8.6% of revenues for the nine months ended December 31, 1999 as compared to \$4.8 million or 6.8% of revenues for the nine months ended December 31, 1998. In the Adjusted Financial Presentation data above, we have provided, retroactively, what our service fee gross profit margin would have been considering the impact of our modified agreement with IBM, our new agreement with Daisytek, our acquisition of the assets and liabilities which Daisytek transferred to us upon completion of the Offering and an adjustment to the costing methodology applied to start-up activity on new client implementations. The gross profit margin for the three month period ended December 31, 1999, would have been 33.1% after giving effect to these adjustments. Our service fee gross profit margin in the future is targeted to be between 35-40%.

Selling, General and Administrative Expenses. SG&A expenses were \$6.6 million for the three months ended December 31, 1999 or 60.7% of revenues as compared to \$1.9 million or 7.2% of revenues for the three months ended December 31, 1998. SG&A expenses were \$12.5 million for the nine months ended December 31, 1999 or 16.9% of revenues as compared to \$4.4 million or 6.3% of revenues for the nine months ended December 31, 1998. As a result of incremental costs, the restructuring of the IBM agreements and the related reduction in product revenue, SG&A expenses as a percentage of total revenue are higher in the current periods than in prior periods. SG&A expenses increased as a result of costs incurred to support the higher sales volumes under both new and existing contracts and incremental investments in resources and technology to support our continued growth. SG&A expenses also increased as a result of certain incremental charges effected during this quarter. In the future, while we anticipate that we will continue to incur incremental costs as we make further SG&A investments in our sales, marketing, and technology areas to support our growth strategies and as a result of operating as a stand-alone public company, we are targeting our SG&A, as a percent of sales, to decrease as we increase our service fee revenue.

Interest Expense, Net. Interest expense was \$0.1 million for the three months ended December 31, 1999 as compared to interest income of \$0.1 million for the three months ended December 31, 1998. Interest expense was \$0.8 million for the nine months ended December 31, 1999 as compared to interest expense of \$0.1 million for the nine months ended December 31, 1998. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements and for capital expenditures, offset by interest income earned subsequent to the Offering. As indicated below, in December 1999, we used a portion of the funds from the Offering to repay a portion of our intercompany payable balance to Daisytek and purchase certain assets from Daisytek. The remaining available cash will be used for future capital expenditures, general working capital needs, the remaining balance of the payable to Daisytek and possible acquisitions. To the extent that we have excess cash available, we expect to generate interest income in future periods.

Income Taxes. Our income tax benefit as a percentage of pre-tax loss was 15.2% for the three months ended December 31, 1999 as compared to an income tax provision as a percentage of pre-tax income of 41.6% for the three months ended December 31, 1998. Our income tax benefit as a percentage of pre-tax

loss was 19.7% for the nine months ended December 31, 1999 as compared to an income tax provision as a percentage of pre-tax income of 42.2% for the three months ended December 31, 1998. We will continue to be included in Daisytek's consolidated tax return through the date of the spin-off from Daisytek. As part

of the tax sharing agreement entered into with Daisytek, we will be reimbursed for any income tax benefit derived from our inclusion in the consolidated return. However, for the period between the Offering and the spin-off any loss generated by us in excess of established limits may not be utilized at a consolidated level. Accordingly, we did not record a benefit for the pre-tax loss generated in the U.S. subsequent to the Offering. Additionally, because of our limited operating history in Europe, it is uncertain whether it is "more likely than not" that we will be able to utilize our European losses in future periods and therefore we did not record an income tax benefit for those pre-tax losses. To the extent we have losses in the U.S. or in Europe in future quarters, prior to the spin-off, it will continue to negatively impact our income tax provision. For the three months and nine months ended December 31, 1998, the income tax percentage is impacted by the differences between our U.S. and foreign subsidiaries, which are taxed at different rates.

#### USE OF OFFERING PROCEEDS

In December 1999, PFSweb sold an aggregate of 3,565,000 shares of common stock, \$0.001 par value, in an initial public offering led by Hambrecht & Quist, Dain Rauscher Wessels and Jefferies & Company, Inc., managing underwriters. The Registration Statement on Form S-1 for the Offering was declared effective on December 2, 1999 (Commission File No. 333-87657). All of the securities registered for the Offering were sold by the Company at an initial public offering price of \$17.00 per share.

The following sets forth certain information regarding the Offering as of December 31, 1999 (in thousands):

Gross offering proceeds		\$ 60,605
Offering expenses:		
Underwriting discount	4,242	
Expenses paid to or for underwriters	--	
Other expenses	3,349	
	-----	
Total offering expenses		7,591
		-----
Net offering proceeds		\$ 53,014
		=====

All of such payments of Offering expenses were made to others, except that James F. Reilly, a director of the Company, also serves as a Managing Director of Hambrecht & Quist.

The following sets forth certain information regarding the use by the Company of the net offering proceeds as of December 31, 1999 (in thousands).

Repayment of payable to Daisytek	\$ 22,300
Acquisition of property and equipment and other assets from Daisytek	5,000
Working capital and temporary investments	25,714
	-----
	\$ 53,014
	=====

The Company made additional payments to reduce the payable to Daisytek in January 2000.

The Company's temporary investments consist of commercial bank money market accounts pending use of such funds for the Company's operations.

All of such payments of Offering proceeds were made to others, except for the payments to Daisytek, which is the holder of approximately 80% of the Company's outstanding common stock.

#### LIQUIDITY AND CAPITAL RESOURCES

As a subsidiary of Daisytek, we have historically funded our business through intercompany borrowings from Daisytek. As a result of the Offering, as of the end of January 2000, we have repaid such intercompany borrowings. We

currently believe that the remaining net proceeds from the Offering and funds generated from operations will satisfy our working capital and capital expenditure requirements for

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the next twelve months. Daisytek is prohibited from advancing funds to us following the completion of the Offering, except in the normal course of business. Accordingly, in order to provide additional financing flexibility in the future, we plan to seek our own credit facility.

PFS had previously guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). On October 29, 1999, Daisytek amended the Facility. This amendment also provided for the release of PFS as guarantor on the Facility upon (i) the effective date of the Offering of the shares of common stock of PFSweb and (ii) the payment from PFSweb to Daisytek in settlement of the outstanding payable to Daisytek. In satisfaction of these conditions, PFS has been released from its guarantee.

Working capital increased to \$22.0 million at December 31, 1999 from \$14.6 million at March 31, 1999. The amount as of December 31, 1999 was primarily the result of the Offering, which on a net basis, contributed approximately \$20 million to working capital. A significant portion of our working capital needs has historically been related to our master distributor agreements with IBM, which required us to purchase and resell the product inventory to IBM customers. Under our new agreements with IBM, Daisytek now acts as the master distributor (and is responsible for the purchase and resale of the product inventory and retains the customer revenue), and we continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we now receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, during the quarter ended September 30, 1999, we transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek paid to us the net book value of these assets and liabilities (approximately \$20 million). As a result of the modification to the IBM agreements and the proceeds raised from the Offering, our historical working capital requirements prior to December 1999 may not be indicative of our future needs.

Net cash provided by financing activities was \$30.8 million for the nine months ended December 31, 1999. In December 1999, we successfully completed our Offering and sold 3,100,000 shares of common stock at \$17 per share. We also granted to the underwriters an option to purchase 465,000 additional common shares to cover over-allotments, which was exercised. Proceeds from the offering aggregated approximately \$53 million. Proceeds were used to repay an intercompany payable to Daisytek of approximately \$28 million, of which approximately \$22 million has been paid as of December 31, 1999, and to acquire from Daisytek all fixed assets in its Memphis distribution facility, as well as certain assets providing information technology services for approximately \$5 million. The remaining net proceeds are intended to be used for working capital and currently anticipated annual capital expenditures of \$7 - \$10 million, a portion of which may be financed through capital or operating leases, the remaining balance of the payable to Daisytek and possible acquisitions. Net cash provided by financing activities was \$25.4 million for the nine months ended December 31, 1998. For the nine months ended December 31, 1998, cash provided by Daisytek was used to fund the incremental financing of one of our client's inventory, our capital expenditures and working capital requirements.

Cash flows provided by operating activities totaled \$12.1 million during the nine months ended December 31, 1999. Cash flows used in operating activities totaled \$14.3 million during the nine months ended December 31, 1998. For the nine months ended December 31, 1999, the net cash provided by operating activities primarily reflected a reduction in accounts payable and accrued expenses of \$27.3 million, accounts receivable of \$13.7 million and inventory of \$29.9 million. These reductions primarily related to the transfer of the IBM related working capital assets from us to Daisytek in conjunction with the new IBM agreements. For the nine months ended December 31, 1998, the net cash used in operating activities reflected an increase in inventory of \$21.4 million, accounts receivable of \$9.4 million, and accounts payable and accrued expenses of \$16.2 million. Working capital requirements for the nine months ended



December 31, 1998 were primarily due to product revenue growth under our North American IBM master distributor agreements. We also entered into new master distributor agreements in December 1998 to provide services for IBM in Europe. Our North American IBM revenue growth, as well as the new European IBM contracts, resulted in significant increases in IBM contract related accounts receivable, inventory and accounts payable.

Cash used in investing activities was \$12.7 million for the nine months ended December 31, 1999 as compared to \$11.0 million for the nine months ended December 31, 1998. During the nine months ended December 31, 1999, our capital expenditures included the asset purchase from Daisytek at the completion of the Offering, our new Belgium distribution facility, and the expansion of U.S. sales and distribution facilities. Partially offsetting these capital expenditures was a reduction of third-party financed inventory. Cash used in investing activities for the nine months ended December 31, 1998 was primarily as a result of a long-term contractual agreement with one of our clients pursuant to which, as part of the services that we provide, we finance certain of the client's inventory. Subsequent to December 31, 1999, this client gave us

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a preliminary indication that they might not have us finance this inventory in the future. 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 significant 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 calendar year 2000 will be approximately \$7 to \$10 million. Some of these expenditures may be financed through operating or capital leases.

We believe that international markets represent further opportunities for growth. We may consider entering into forward exchange contracts in order to hedge our net investment in our Canadian or European operations or in other international countries in which we establish a presence, although no assurance can be given that we will be able to do so on acceptable terms.

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.

YEAR 2000 ISSUE

Daisytek and its subsidiaries (including PFSweb) completed its identification, assessment and remediation of the year 2000 compliance issue ("Y2K") in December 1999. The total expenses incurred by Daisytek and its subsidiaries (including PFSweb) related to Y2K was approximately \$0.8 million, which included both external costs, such as outside consultants, software and hardware applications, as well as internal costs, primarily payroll related, which are not reported separately. To date, the Company has not experienced any material Y2K failures and to the best of its knowledge neither have any of its significant clients or service providers. However, there can be no assurance that in the future issues related to Y2K will not have a material adverse effect on our financial condition or that of our significant clients or service providers.

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## INVENTORY MANAGEMENT

Prior to September 30, 1999, our agreements with IBM were structured as master distributor agreements. The transaction management services we provided for IBM under these agreements included purchasing and reselling IBM product inventory to IBM customers. During the quarter ended September 30, 1999, we restructured our agreements with IBM so that we will no longer be purchasing or reselling the IBM product inventory. In addition, we have transferred to Daisytek the IBM-related customer accounts receivables, inventory and accounts payable. We do not expect to own product inventory in future periods.

## 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 as our business grows with consumer product clients, our business activity will be more significant in the quarter ended December 31.

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

In June 1998, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that an entity recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be used to hedge certain types of transactions, including foreign currency exposures of a net investment in a foreign operation. Our foreign currency exposure has historically been primarily related to our Canadian operations and also now includes our European business. Beginning in the year ended March 31, 1999, the foreign currency risks of PFSweb were considered in Daisytek's corporate risk management program, which included entering into certain forward currency exchange contracts. We did not enter into any such contracts on our own. SFAS No. 133 requires gains or losses on derivatives and hedging instruments to be recorded in other comprehensive income as a part of the cumulative translation adjustment. We are currently evaluating the provisions of SFAS No. 133 and its effect on the accounting treatment of these financial instruments. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, with initial application as of the beginning of an entity's fiscal quarter. Early adoption of the standard is allowed; however, the statement cannot be applied retroactively to financial statements of prior periods.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The carrying value of the Company's financial instruments, which include cash and cash equivalents and a capital lease obligation, approximate their fair values based on current market price and rates.

We are subject to market risk associated with changes in foreign currency exchange rates. In order to manage these risks, beginning in the year ended March 31, 1999, certain of our risks were considered in Daisytek's corporate risk management program, which included entering into certain forward currency exchange contracts. We did not enter into any such contracts on our own.

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. In order to mitigate foreign currency rate risk, we will consider entering into forward currency exchange contracts to hedge our net investment and long-term intercompany payable balances.

## PART II. OTHER INFORMATION

## 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
1.1	Underwriting Agreement by and among PFSweb, Inc., Daisytek International Corporation and the Underwriters named therein.
2.1	Master Separation Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.2	Initial Public Offering and Distribution Agreement by and among Daisytek International Corporation, Daisytek Incorporated and PFSweb, Inc.
2.3	Registration Rights Agreement by and among Daisytek International Corporation, Daisytek, Incorporated and PFSweb, Inc.
2.4	Tax Indemnification and Allocation Agreement between Daisytek International Corporation and PFSweb, Inc.
2.5	Transition Services Agreement between Daisytek, Incorporated and PFSweb, Inc.
2.6	Transaction Management Services Agreement between Daisytek, Incorporated and Priority Fulfillment Services, Inc.
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
27.1	Financial Data Schedule for the nine months ended December 31, 1999

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

## b) Reports on Form 8-K:

None.

## 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: February 14, 2000

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

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INDEX TO EXHIBITS

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2.3	Registration Rights Agreement by and among Daisytek International Corporation, Daisytek, Incorporated and PFSweb, Inc.
2.4	Tax Indemnification and Allocation Agreement between Daisytek International Corporation and PFSweb, Inc.
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PFSWEB, INC.

3,100,000 SHARES(1)

COMMON STOCK

UNDERWRITING AGREEMENT

December 1, 1999

HAMBRECHT & QUIST LLC  
 Dain Rauscher Wessels, a division of Dain Rauscher Incorporated  
 Jefferies & Company, Inc.  
 c/o Hambrecht & Quist LLC  
 One Bush Street  
 San Francisco, CA 94104

Ladies and Gentlemen:

PFSweb, Inc., a Delaware corporation (herein called the Company), proposes to issue and sell 3,100,000 shares of its authorized but unissued Common Stock, \$0.001 par value (herein called the Common Stock) (said 3,100,000 shares of Common Stock being herein called the Underwritten Stock). The Company proposes to grant to the Underwriters (as hereinafter defined) an option to purchase up to 465,000 additional shares of Common Stock (herein called the Option Stock and with the Underwritten Stock herein collectively called the Stock). The Common Stock is more fully described in the Registration Statement and the Prospectus hereinafter mentioned.

The Company hereby confirms the agreements made with respect to the purchase of the Stock by the several underwriters, for whom you are acting, named in Schedule I hereto (herein collectively called the Underwriters, which term shall also include any underwriter purchasing Stock pursuant to Section 3(b) hereof). You represent and warrant that you have been authorized by each of the other Underwriters to enter into this Agreement on its behalf and to act for it in the manner herein provided.

As part of the offering contemplated by this Agreement, Hambrecht & Quist LLC has agreed to reserve out of the Stock set forth opposite its name on Schedule I to this Agreement, up to 217,000 shares, for sale to the Company's employees, officers, directors and associates (collectively, "Participants"), as set forth in the Prospectus under the heading "Underwriting"

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(1) Plus an option to purchase from the Company up to 465,000 additional shares to cover over-allotments.

(the "Directed Share Program"). The Stock to be sold by Hambrecht & Quist LLC pursuant to the Directed Share Program (the "Directed Shares") will be sold by Hambrecht & Quist LLC pursuant to this Agreement at the public offering price. Any Directed Shares not orally confirmed for purchase by any Participants by the end of the first business day after the date on which this Agreement is executed will be offered to the public by Hambrecht & Quist LLC as set forth in the Prospectus.

1. REGISTRATION STATEMENT. The Company has filed with the Securities and Exchange Commission (herein called the Commission) a registration statement on Form S-1 (No. 333-87657), including the related preliminary prospectus, for the registration under the Securities Act of 1933, as amended (herein called the Securities Act) of the Stock. Copies of such registration statement and of each amendment thereto, if any, including the related preliminary prospectus (meeting the requirements of Rule 430A of the rules and regulations of the Commission) heretofore filed by the Company with the Commission have been delivered to you.

The term Registration Statement as used in this agreement shall mean such registration statement, including all exhibits and financial statements, all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, in the form in which it became effective, and any registration statement filed pursuant to Rule 462(b) of the rules and regulations of the Commission with respect to the Stock (herein called a Rule 462(b) registration statement), and, in the event of any amendment thereto after the effective date of such registration statement (herein called the Effective Date), shall also mean (from and after the effectiveness of such amendment) such registration statement as so amended (including any Rule 462(b) registration statement). The term Prospectus as used in this Agreement shall mean the prospectus relating to the Stock first filed with the Commission pursuant to Rule 424(b) and Rule 430A (or if no such filing is required, as included in the Registration Statement) and, in the event of any supplement or amendment to such prospectus after the Effective Date, shall also mean (from and after the filing with the Commission of such supplement or the effectiveness of such amendment) such prospectus as so supplemented or amended. The term Preliminary Prospectus as used in this Agreement shall mean each preliminary prospectus included in such registration statement prior to the time it becomes effective.

The Company has caused to be delivered to you copies of each Preliminary Prospectus and has consented to the use of such copies for the purposes permitted by the Securities Act.

## 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND DAISYTEK.

(a) Each of the Company and Daisytek International Corporation, a Delaware Corporation and parent of the Company ("Daisytek"), hereby jointly and severally represents and warrants as follows:

(i) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and as

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being conducted, and is duly qualified as a foreign corporation and in good standing in all jurisdictions in which the character of the property owned or leased or the nature of the business transacted by it makes qualification necessary (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole). Daisytek has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation.

(ii) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any materially adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Registration Statement and the Prospectus, and since such dates, except in the ordinary course of business, neither the Company

nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement and the Prospectus.

(iii) The Registration Statement has been declared effective under the Securities Act, no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement and no stop order suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus is in effect and no proceedings for that purpose have been instituted or are pending or contemplated by the Commission.

(iv) The Registration Statement and the Prospectus comply, and on the Closing Date (as hereinafter defined) and any later date on which Option Stock is to be purchased, the Prospectus will comply, in all material respects, with the provisions of the Securities Act and the rules and regulations of the Commission thereunder; on the Effective Date, the Registration Statement did not contain any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date the Prospectus did not and, on the Closing Date and any later date on which Option Stock is to be purchased, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this subparagraph (iv) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon and in conformity with information herein or otherwise furnished in writing to the Company by or on behalf of the Underwriters for use in the Registration Statement or the Prospectus.

(v) The authorized capital stock of the Company consists of 1,000,000 shares of Preferred Stock, \$1.00 par value, of which no shares are outstanding, and 40,000,000 shares of Common Stock, \$0.001 par value, of which there are outstanding 17,405,000 shares (including the Underwritten Stock plus the number of shares of Option Stock issued on the date hereof) and such authorized capital stock conforms as to legal matters

to the description thereof contained in the Prospectus; proper corporate proceedings have been taken validly to authorize such authorized capital stock; all of the outstanding shares of such capital stock (including the Underwritten Stock and the shares of Option Stock issued, if any) have been duly and validly issued and are fully paid and nonassessable; any Option Stock purchased after the Closing Date, when issued and delivered to and paid for by the Underwriters as provided in this Agreement, will have been duly and validly issued and be fully paid and nonassessable; and no preemptive rights of, or rights of refusal in favor of, stockholders exist with respect to the Stock, or the issue and sale thereof, pursuant to the Certificate of Incorporation or Bylaws of the Company and there are no contractual preemptive rights that have not been waived, rights of first refusal or right of co-sale which exist with respect to the issue and sale of the Stock. All the issued and outstanding capital stock of each of the subsidiaries of the Company has been duly authorized and validly issued and is fully paid and nonassessable, and is owned by the Company free and clear of all liens, encumbrances and security interests, and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in such subsidiaries are outstanding.

(vi) The Stock to be issued and sold by the Company is authorized for listing by the Nasdaq National Market.

(vii) The Company is not, and upon receipt and pending application of the net proceeds from the sale of the Stock to be sold by the Company in the manner described in the Prospectus will not be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(viii) Each of the Master Separation Agreement, the Initial Public Offering and Distribution Agreement, the Registration Rights Agreement, the Tax Indemnification and Allocation Agreement, the Transition Services Agreement, the Transaction Management Services Agreement (collectively, the "Spin-off Agreements") and this Agreement has been duly authorized, executed and delivered by the parties thereto and each of the Spin-off Agreements is a valid and binding agreement of such parties enforceable in accordance with its terms.

(ix) (1) This Agreement and the issue and sale by the Company of the shares of Stock sold by the Company as contemplated herein and (2) the Spin-off Agreements and the transactions contemplated therein, in each case, do not and will not conflict with, or result in a breach of, the Certificate of Incorporation or Bylaws of Daisytek, the Company or any of their subsidiaries, or any agreement or instrument to which Daisytek, the Company or any of their subsidiaries is a party or by which any of the properties or assets of Daisytek, the Company or any of their subsidiaries may be bound or affected, or any applicable law or regulation, or any order, writ, injunction or decree, of any jurisdiction, court or governmental instrumentality.

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(x) No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in this Agreement, except such as have been obtained under the Securities Act and such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Stock by the Underwriters, or for the consummation of the transactions contemplated in the Spin-off Agreements.

(xi) The Company's pro forma combined financial statements and notes forming part of the Registration Statement and the Prospectus (i) were derived from historical financial statements appearing in the Registration Statement and the Prospectus and (ii) are based on assumptions that provide a reasonable basis for presenting the significant effects of the transactions and events as described in the Registration Statement and the Prospectus, the related pro forma adjustments give appropriate effect to such assumptions; and the pro forma columns reflect the proper allocation of such adjustments to the historical financial statements.

(xii) The Company has not offered, or caused the Underwriters to offer, Stock to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company or (ii) a trade journalist or publication to write or publish favorable information about the Company or its business. The Registration Statement, the Prospectus and any Preliminary Prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any Preliminary Prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, and no authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality or court other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States.



(xiii) The information required to be set forth in the Registration Statement in answer to Items 9, 10 and 11(c) of Form S-1 is accurately and adequately set forth therein in all material respects or no response is required with respect to such Items, and the description of the Company's stock option plans and the options granted and which may be granted thereunder set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to said plans and options to the extent required by the Securities Act and the rules and regulations of the Commission thereunder.

(xiv) There are no franchises, contracts, leases, documents or legal proceedings, pending or threatened, which are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not described and filed as required.

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(xv) There are no holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company, that have not waived such rights, or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement.

### 3. PURCHASE OF THE STOCK BY THE UNDERWRITERS.

(a) On the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell 3,100,000 of the Underwritten Stock to the several Underwriters and each of the Underwriters agrees to purchase from the Company the respective aggregate number of shares of Underwritten Stock set forth opposite its name in Schedule I. The price at which such shares of Underwritten Stock shall be sold by the Company and purchased by the several Underwriters shall be \$17.00 per share. In making this Agreement, each Underwriter is contracting severally and not jointly; except as provided in paragraphs (b) and (c) of this Section 3, the agreement of each Underwriter is to purchase only the respective number of shares of the Underwritten Stock specified in Schedule I.

(b) If for any reason one or more of the Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 8 or 9 hereof) to purchase and pay for the number of shares of the Stock agreed to be purchased by such Underwriter or Underwriters, the Company shall immediately give notice thereof to you, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by you of such notice to purchase, or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon between you and such purchasing Underwriter or Underwriters and upon the terms herein set forth, all or any part of the shares of the Stock which such defaulting Underwriter or Underwriters agreed to purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such shares and portion, the number of shares of the Stock which each non-defaulting Underwriter is otherwise obligated to purchase under this Agreement shall be automatically increased on a pro rata basis to absorb the remaining shares and portion which the defaulting Underwriter or Underwriters agreed to purchase; provided, however, that the non-defaulting Underwriters shall not be obligated to purchase the shares and portion which the defaulting Underwriter or Underwriters agreed to purchase if the aggregate number of such shares of the Stock exceeds 10% of the total number of shares of the Stock which all Underwriters agreed to purchase hereunder. If the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company shall have the right, within 24 hours next succeeding the 24-hour period above referred to, to make arrangements with other underwriters or purchasers satisfactory to you for purchase of such shares and portion on the terms herein set forth. In any such case, either you or the Company shall have the right to postpone the Closing Date determined as provided in Section 5 hereof for not more than seven business days after the date originally fixed as the Closing Date pursuant to said Section 5 in order that any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements

may be made. If neither the non-defaulting Underwriters nor the Company shall make arrangements within the 24-hour periods stated above for the purchase of all the shares of the Stock which the defaulting Underwriter or Underwriters

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agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter to the Company. Nothing in this paragraph (b), and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

(c) On the basis of the representations, warranties and covenants herein contained, and subject to the terms and conditions herein set forth, the Company grants an option to the several Underwriters to purchase, severally and not jointly, up to 465,000 shares in the aggregate of the Option Stock from the Company at the same price per share as the Underwriters shall pay for the Underwritten Stock. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Stock by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the thirtieth day after the date of this Agreement upon written or telegraphic notice by you to the Company setting forth the aggregate number of shares of the Option Stock as to which the several Underwriters are exercising the option. Delivery of certificates for the shares of Option Stock, and payment therefor, shall be made as provided in Section 5 hereof. The number of shares of the Option Stock to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Stock to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Stock, as adjusted by you in such manner as you deem advisable to avoid fractional shares.

#### 4. OFFERING BY UNDERWRITERS.

(a) The terms of the initial public offering by the Underwriters of the Stock to be purchased by them shall be as set forth in the Prospectus. The Underwriters may from time to time change the public offering price after the closing of the initial public offering and increase or decrease the concessions and discounts to dealers as they may determine.

(b) The information set forth in the last paragraph on the front cover page and under "Underwriting" in the Registration Statement, any Preliminary Prospectus and the Prospectus relating to the Stock filed by the Company (insofar as such information relates to the Underwriters) constitutes the only information furnished by the Underwriters to the Company for inclusion in the Registration Statement, any Preliminary Prospectus, and the Prospectus, and you on behalf of the respective Underwriters represent and warrant to the Company that the statements made therein are correct.

#### 5. DELIVERY OF AND PAYMENT FOR THE STOCK.

(a) Delivery of certificates for the shares of the Underwritten Stock and the Option Stock (if the option granted by Section 3(c) hereof shall have been exercised not later than 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date), and payment therefor, shall be made at the office of Gibson, Dunn & Crutcher LLP, 1717 Main Street, Dallas, Texas 75201, at 7:00 a.m., San Francisco time, on the fourth business day after the date of this Agreement, or at such time on such other day, not later than seven full business days after such fourth business day, as shall be agreed upon in writing by the Company and you. The

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date and hour of such delivery and payment (which may be postponed as provided in Section 3(b) hereof) are herein called the Closing Date.

(b) If the option granted by Section 3(c) hereof shall be exercised after 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date, delivery of certificates for the shares of Option Stock, and payment therefor, shall be made at the office of Gibson, Dunn & Crutcher LLP, 1717 Main Street, Dallas, Texas 75201, at 7:00 a.m., San Francisco time, on the third business day after the exercise of such option.

(c) Payment for the Stock purchased from the Company shall be made to the Company or its order by wire transfer in same day funds. Such payment shall be made upon delivery of certificates for the Stock to you for the respective accounts of the several Underwriters against receipt therefor signed by you. Certificates for the Stock to be delivered to you shall be registered in such name or names and shall be in such denominations as you may request at least one business day before the Closing Date, in the case of Underwritten Stock, and at least one business day prior to the purchase thereof, in the case of the Option Stock. Such certificates will be made available to the Underwriters for inspection, checking and packaging at the offices of Lewco Securities Corporation, 2 Broadway, New York, New York 10004 on the business day prior to the Closing Date or, in the case of the Option Stock, by 3:00 p.m., New York time, on the business day preceding the date of purchase.

It is understood that you, individually and not on behalf of the Underwriters, may (but shall not be obligated to) make payment to the Company for shares to be purchased by any Underwriter whose funds shall not have been received by you on the Closing Date or any later date on which Option Stock is purchased for the account of such Underwriter. Any such payment by you shall not relieve such Underwriter from any of its obligations hereunder.

6. FURTHER AGREEMENTS OF THE COMPANY AND DAISYTEK. The Company and Daisytek covenant and agree (and Daisytek shall cause the Company to covenant and agree) as follows:

(a) The Company will (i) prepare and timely file with the Commission under Rule 424(b) a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A and (ii) not file any amendment to the Registration Statement or supplement to the Prospectus of which you shall not previously have been advised and furnished with a copy or to which you shall have reasonably objected in writing or which is not in compliance with the Securities Act or the rules and regulations of the Commission.

(b) The Company will promptly notify each Underwriter in the event of (i) the request by the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, (iii) the institution or notice of intended institution of any action or proceeding for that purpose, (iv) the receipt by the Company of any notification with respect to the suspension of the qualification of the Stock for sale in any jurisdiction, or (v) the receipt

by it of notice of the initiation or threatening of any proceeding for such purpose. The Company will make every reasonable effort to prevent the issuance of such a stop order and, if such an order shall at any time be issued, to obtain the withdrawal thereof at the earliest possible moment.

(c) The Company will (i) on or before the Closing Date, deliver to you a signed copy of the Registration Statement as originally filed and of each amendment thereto filed prior to the time

the Registration Statement becomes effective and, promptly upon the filing thereof, a signed copy of each post-effective amendment, if any, to the Registration Statement (together with, in each case, all exhibits thereto unless previously furnished to you) and will also deliver to you, for distribution to the Underwriters, a sufficient number of additional conformed copies of each of the foregoing (but without exhibits) so that one copy of each may be distributed to each Underwriter, (ii) as promptly as possible deliver to you and send to the several Underwriters, at such office or offices as you may designate, as many copies of the Prospectus as you may reasonably request, and (iii) thereafter from time to time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, likewise send to the Underwriters as many additional copies of the Prospectus and as many copies of any supplement to the Prospectus and of any amended prospectus, filed by the Company with the Commission, as you may reasonably request for the purposes contemplated by the Securities Act.

(d) If at any time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer any event relating to or affecting the Company, or of which the Company shall be advised in writing by you, shall occur as a result of which it is necessary, in the opinion of counsel for the Company or of counsel for the Underwriters, to supplement or amend the Prospectus in order to make the Prospectus not misleading in the light of the circumstances existing at the time it is delivered to a purchaser of the Stock, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus so that the Prospectus as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time such Prospectus is delivered to such purchaser, not misleading. If, after the initial public offering of the Stock by the Underwriters and during such period, the Underwriters shall propose to vary the terms of offering thereof by reason of changes in general market conditions or otherwise, you will advise the Company in writing of the proposed variation, and, if in the opinion either of counsel for the Company or of counsel for the Underwriters such proposed variation requires that the Prospectus be supplemented or amended, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus setting forth such variation. The Company authorizes the Underwriters and all dealers to whom any of the Stock may be sold by the several Underwriters to use the Prospectus, as from time to time amended or supplemented, in connection with the sale of the Stock in accordance with the applicable provisions of the Securities Act and the applicable rules and regulations thereunder for such period.

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(e) Prior to the filing thereof with the Commission, the Company will submit to you, for your information, a copy of any post-effective amendment to the Registration Statement and any supplement to the Prospectus or any amended prospectus proposed to be filed.

(f) The Company will cooperate, when and as requested by you, in the qualification of the Stock for offer and sale under the securities or blue sky laws of such jurisdictions as you may designate and, during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, in keeping such qualifications in good standing under said securities or blue sky laws; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. The Company will, from time to time, prepare and file such statements, reports, and other documents as are or may be required to continue such qualifications in effect for so long a period as you may reasonably request for distribution of the Stock.

(g) During a period of five years commencing with the date hereof, the Company will furnish to you, and to each Underwriter who may so request in writing, copies of all periodic and special reports furnished to stockholders of the Company and of all information, documents and reports filed with the Commission (including the Report on Form SR required by Rule 463 of the Commission under the Securities Act).

(h) Not later than the 45th day following the end of the fiscal quarter first occurring after the first anniversary of the Effective Date, the Company will make generally available to its security holders an earnings statement in accordance with Section 11(a) of the Securities Act and Rule 158 thereunder.

(i) The Company agrees to pay all costs and expenses incident to the performance of its obligations under this Agreement, including all costs and expenses incident to (i) the preparation, printing and filing with the Commission and the National Association of Securities Dealers, Inc. of the Registration Statement, any Preliminary Prospectus and the Prospectus, (ii) the furnishing to the Underwriters of copies of any Preliminary Prospectus and of the several documents required by paragraph (c) of this Section 6 to be so furnished, (iii) the printing of this Agreement and related documents delivered to the Underwriters, (iv) the preparation, printing and filing of all supplements and amendments to the Prospectus referred to in paragraph (d) of this Section 6, (v) the furnishing to you and the Underwriters of the reports and information referred to in paragraph (g) of this Section 6 and (vi) the printing and issuance of stock certificates, including the transfer agent's fees.

(j) The Company agrees to reimburse you, for the account of the several Underwriters, for blue sky fees and related disbursements (including counsel fees and disbursements and cost of printing memoranda for the Underwriters) paid by or for the account of the Underwriters or their counsel in qualifying the Stock under state securities or blue sky laws and in the review of the offering by the NASD.

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(k) The Company and Daisytek agree that, without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, neither the Company nor Daisytek will, for a period of 180 days following the commencement of the public offering of the Stock by the Underwriters, directly or indirectly, (i) sell, offer, contract to sell, make any short sale, pledge, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Stock to be sold to the Underwriters pursuant to this Agreement and (B) options to purchase Common Stock granted under the stock option plans of the Company, all as described in "Management -- PFSweb Stock Option and Incentive Plans -- Employee Stock Option Plan and - Non-Employee Director Compensation; Stock Option and Retainer Plan" in the Preliminary Prospectus.

(l) If at any time during the 25-day period after the Registration Statement becomes effective any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price for the Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release

or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(m) The Company agrees to use its best efforts to complete the divestiture of the Company from Daisytek as described in the Registration Statement and the Prospectus.

(n) In connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the NASD or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. The Company will direct the transfer agent to place stop transfer restrictions upon such securities for such period of time. Furthermore, the Company will comply with all securities and other laws, rules and regulations applicable to it in each foreign jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

(o) The Company agrees to pay, or reimburse if paid by the Underwriters, all reasonable fees and disbursements of counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program.

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#### 7. INDEMNIFICATION AND CONTRIBUTION.

(a) Each of the Company and Daisytek jointly and severally agrees to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended (herein called the Exchange Act), or the common law or otherwise, and each of the Company and Daisytek jointly and severally agrees to reimburse each such Underwriter and controlling person for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement), or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the indemnity agreements of the Company and Daisytek contained in this paragraph shall not apply to any such losses, claims, damages, liabilities or expenses if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of any Underwriter for use in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto.

Further, each of the Company and Daisytek jointly and severally agrees to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Securities Exchange Act, or the common law or otherwise, and each of the Company and Daisytek jointly and severally agrees to reimburse each such Underwriter and controlling person for any legal or other expenses (including, except as otherwise

hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the prospectus wrapper material prepared by or with the consent of the Company for distribution in foreign jurisdictions in connection with the Directed Share Program attached to the Prospectus or any Preliminary Prospectus, or caused by

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any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein, when considered in conjunction with the Prospectus or any applicable Preliminary Prospectus, not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of the shares which, immediately following the effectiveness of the Registration Statement, were subject to a properly confirmed agreement to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program; provided, however, that, neither the Company nor Daisytek shall be responsible under this subparagraph (iii) for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of any Underwriter.

The indemnity agreements of each of the Company and Daisytek contained in this section 7(a) and the representations and warranties of the Company and Daisytek contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(b) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its officers who signs the Registration Statement on his own behalf or pursuant to a power of attorney, each of its directors, each other Underwriter and each person (including each partner or officer thereof) who controls the Company or any such other Underwriter within the meaning of Section 15 of the Securities Act, from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act, or the common law or otherwise and to reimburse each of them for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement) or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or any prospectus wrapper material prepared by or with the consent of the Underwriters for distribution in foreign jurisdictions in connection with the Directed Share Program attached to the Prospectus or any Preliminary Prospectus or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of such indemnifying Underwriter for use in the Registration Statement or the Prospectus (or any prospectus wrapper material attached thereto) or any such amendment thereof or supplement thereto. The indemnity agreement of each Underwriter contained in this

paragraph (b) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(c) Each party indemnified under the provision of paragraphs (a) and (b) of this Section 7 agrees that, upon the service of a summons or other initial legal process upon it in any action or suit instituted against it or upon its receipt of written notification of the commencement of any investigation or inquiry of, or proceeding against, it in respect of which indemnity may be sought on account of any indemnity agreement contained in such paragraphs, it will promptly give written notice (herein called the Notice) of such service or notification to the party or parties from whom indemnification may be sought hereunder. No indemnification provided for in such paragraphs shall be available to any party who shall fail so to give the Notice if the party to whom such Notice was not given was unaware of the action, suit, investigation, inquiry or proceeding to which the Notice would have related and was prejudiced by the failure to give the Notice, but the omission so to notify such indemnifying party or parties of any such service or notification shall not relieve such indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of such indemnity agreement. Any indemnifying party shall be entitled at its own expense to participate in the defense of any action, suit or proceeding against, or investigation or inquiry of, an indemnified party. Any indemnifying party shall be entitled, if it so elects within a reasonable time after receipt of the Notice by giving written notice (herein called the Notice of Defense) to the indemnified party, to assume (alone or in conjunction with any other indemnifying party or parties) the entire defense of such action, suit, investigation, inquiry or proceeding, in which event such defense shall be conducted, at the expense of the indemnifying party or parties, by counsel chosen by such indemnifying party or parties and reasonably satisfactory to the indemnified party or parties; provided, however, that (i) if the indemnified party or parties reasonably determine that there may be a conflict between the positions of the indemnifying party or parties and of the indemnified party or parties in conducting the defense of such action, suit, investigation, inquiry or proceeding or that there may be legal defenses available to such indemnified party or parties different from or in addition to those available to the indemnifying party or parties, then counsel for the indemnified party or parties shall be entitled to conduct the defense to the extent reasonably determined by such counsel to be necessary to protect the interests of the indemnified party or parties and (ii) in any event, the indemnified party or parties shall be entitled to have counsel chosen by such indemnified party or parties participate in, but not conduct, the defense. If, within a reasonable time after receipt of the Notice, an indemnifying party gives a Notice of Defense and the counsel chosen by the indemnifying party or parties is reasonably satisfactory to the indemnified party or parties, the indemnifying party or parties will not be liable under paragraphs (a) through (c) of this Section 7 for any legal or other expenses subsequently incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding, except that (A) the indemnifying party or parties shall bear the legal and other expenses incurred in connection with the conduct of the defense as referred to in clause (i) of the proviso to the preceding sentence and (B) the indemnifying party or parties shall bear such other expenses as it or they have authorized to be incurred by the indemnified party or parties. If, within a reasonable time after receipt of the Notice, no Notice of Defense has been given, the indemnifying party or parties shall be



responsible for any legal or other expenses incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding.

(d) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under paragraph (a) or (b) of this Section 7, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in paragraph (a) or (b) of this Section 7 (i) in such proportion as is appropriate to reflect the relative benefits received by each indemnifying party from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each indemnifying party in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, or actions in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and Daisytek, taken together, and the Underwriters shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Stock received by the Company and the total underwriting discount received by the Underwriters, as set forth in the table on the cover page of the Prospectus, bear to the aggregate public offering price of the Stock. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by each indemnifying party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission.

The parties agree that it would not be just and equitable if contributions pursuant to this paragraph (d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities, or actions in respect thereof, referred to in the first sentence of this paragraph (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigation, preparing to defend or defending against any action or claim which is the subject of this paragraph (d). Notwithstanding the provisions of this paragraph (d), no Underwriter shall be required to contribute any amount in excess of the underwriting discount applicable to the Stock purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this paragraph (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

Each party entitled to contribution agrees that upon the service of a summons or other initial legal process upon it in any action instituted against it in respect of which contribution may be sought, it will promptly give written notice of such service to the party or parties from whom contribution may be sought, but the omission so to notify such party or parties of any such service shall not relieve the party from whom contribution may be sought from any obligation it

may have hereunder or otherwise (except as specifically provided in paragraph (c) of this Section 7).

(e) Neither the Company nor Daisytek will, without the prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not such

Underwriter or any person who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of such Underwriter and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

8. TERMINATION. This Agreement may be terminated by you at any time prior to the Closing Date by giving written notice to the Company if after the date of this Agreement trading in the Common Stock shall have been suspended, or if there shall have occurred (i) the engagement in hostilities or an escalation of major hostilities by the United States or the declaration of war or a national emergency by the United States on or after the date hereof, (ii) any outbreak of hostilities or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, calamity, crisis or change in economic or political conditions in the financial markets of the United States would, in the Underwriters' reasonable judgment, make the offering or delivery of the Stock impracticable, (iii) suspension of trading in securities generally or a material adverse decline in value of securities generally on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market, or limitations on prices (other than limitations on hours or numbers of days of trading) for securities on either such exchange or system, (iv) the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of, or commencement of any proceeding or investigation by, any court, legislative body, agency or other governmental authority which in the Underwriters' reasonable opinion materially and adversely affects or will materially or adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in the Underwriters' reasonable opinion has a material adverse effect on the securities markets in the United States. If this Agreement shall be terminated pursuant to this Section 8, there shall be no liability of the Company or Daisytek to the Underwriters and no liability of the Underwriters to the Company or Daisytek; provided, however, that in the event of any such termination the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and Daisytek under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

9. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Stock shall be subject to the performance by the Company of all its obligations to be performed hereunder at or prior to the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and to the following further conditions:

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(a) The Registration Statement shall have become effective; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings therefor shall be pending or threatened by the Commission.

(b) The legality and sufficiency of the sale of the Stock hereunder and the validity and form of the certificates representing the Stock, all corporate proceedings and other legal matters incident to the foregoing, and the form of the Registration Statement and of the Prospectus (except as to the financial statements contained therein), shall have been approved at or prior to the Closing Date by Gibson, Dunn & Crutcher LLP, counsel for the Underwriters.

(c) You shall have received from Wolff & Samson, P.A., counsel for the Company and Daisytek, an opinion, addressed to the Underwriters and dated the Closing Date, covering the matters set forth in Annex A hereto, and if Option Stock is purchased at any date after the Closing Date, an additional opinion from such counsel, addressed to the Underwriters and dated such later date, confirming that the statements expressed as of the Closing Date in such opinion remain valid as of such later date.

(d) You shall be satisfied that (i) as of the Effective Date, the statements made in the Registration Statement and the Prospectus were true and correct and neither the Registration Statement nor the Prospectus omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, respectively, not misleading, (ii) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus which has not been set forth in such a supplement or amendment, (iii) since the respective dates as of which information is given in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, and, since such dates, except in the ordinary course of business, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, (iv) neither the Company nor any of its subsidiaries has any material contingent obligations which are not disclosed in the Registration Statement and the Prospectus, (v) there are not any pending or known threatened legal proceedings to which the Company or any of its subsidiaries is a party or of which property of the Company or any of its subsidiaries is the subject which are material and which are not disclosed in the Registration Statement and the Prospectus, (vi) there are not any franchises, contracts, leases or other documents which are required to be filed as exhibits to the Registration Statement which have not been filed as required, (vii) the representations and warranties of the Company herein are true and correct in all material respects as of the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and (viii) there has not been any material change in the market for securities in general or in political, financial or economic conditions from those reasonably foreseeable as to render it impracticable in your reasonable judgment to

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make a public offering of the Stock, or a material adverse change in market levels for securities in general (or those of companies in particular) or financial or economic conditions which render it inadvisable to proceed.

(e) You shall have received on the Closing Date and on any later date on which Option Stock is purchased a certificate, dated the Closing Date or such later date, as the case may be, and signed by the President and the Chief Financial Officer of the Company, stating that the respective signers of said certificate have carefully examined the Registration Statement in the form in which it originally became effective and the Prospectus contained therein and any supplements or amendments thereto, and that the statements included in clauses (i) through (vii) of paragraph (d) of this Section 9 are true and correct.

(f) You shall have received from Arthur Andersen LLP, a letter or letters, addressed to the Underwriters and dated the Closing Date and any later date on which Option Stock is purchased, confirming that they are independent public accountants with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder and based upon the procedures described in their letter delivered to you concurrently with the execution of this Agreement (herein called the Original Letter), but carried out to a date not more than three business days prior to the Closing Date or such later date on which Option Stock is purchased (i)

confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the Original Letter since the date of the Original Letter or to reflect the availability of more recent financial statements, data or information. The letters shall not disclose any change, or any development involving a prospective change, in or affecting the business or properties of the Company or any of its subsidiaries which, in your sole judgment, makes it impractical or inadvisable to proceed with the public offering of the Stock or the purchase of the Option Stock as contemplated by the Prospectus.

(g) You shall have received from Arthur Andersen LLP a letter stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's financial statements as at March (degree) 31, 1999, did not disclose any weakness in internal controls that they considered to be material weaknesses.

(h) You shall have been furnished evidence in usual written or telegraphic form from the appropriate authorities of the several jurisdictions, or other evidence satisfactory to you, of the qualification referred to in paragraph (f) of Section 6 hereof.

(i) Prior to the Closing Date, the Stock to be issued and sold by the Company shall have been duly authorized for listing by the Nasdaq National Market upon official notice of issuance.

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(j) On or prior to the Closing Date, you shall have received from all directors, officers, and beneficial holders of more than 5% of the outstanding Common Stock agreements, in form reasonably satisfactory to Hambrecht & Quist LLC, stating that without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, such person or entity will not, for a period of 180 days following the commencement of the public offering of the Stock by the Underwriters, directly or indirectly, (i) sell, offer, contract to sell, make any short sale, pledge, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise.

All the agreements, opinions, certificates and letters mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if Gibson, Dunn & Crutcher LLP, counsel for the Underwriters, shall be satisfied that they comply in form and scope.

In case any of the conditions specified in this Section 9 shall not be fulfilled, this Agreement may be terminated by you by giving notice to the Company. Any such termination shall be without liability of the Company or Daisytek to the Underwriters and without liability of the Underwriters to the Company or Daisytek; provided, however, that (i) in the event of such termination, the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company under this Agreement, including all costs and expenses referred to in paragraphs (i), (j) and (o) of Section 6 hereof, and (ii) if this Agreement is terminated by you because of any refusal, inability or failure on the part of the Company or Daisytek to perform any agreement herein, to fulfill any of the conditions herein, or to comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including

reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the transactions contemplated hereby.

10. CONDITIONS OF THE OBLIGATION OF THE COMPANY. The obligation of the Company to deliver the Stock shall be subject to the conditions that (a) the Registration Statement shall have become effective and (b) no stop order suspending the effectiveness thereof shall be in effect and no proceedings therefor shall be pending or threatened by the Commission.

In case either of the conditions specified in this Section 10 shall not be fulfilled, this Agreement may be terminated by the Company by giving notice to you. Any such termination shall be without liability of the Company or Daisytek to the Underwriters and without liability of the Underwriters to the Company or Daisytek; provided, however, that in the event of any such termination the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and Daisytek under

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this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

11. REIMBURSEMENT OF CERTAIN EXPENSES. In addition to its other obligations under Section 7 of this Agreement, the Company hereby agrees to reimburse on a quarterly basis the Underwriters for all reasonable legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in paragraph (a) of Section 7 of this Agreement, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the obligations under this Section 11 and the possibility that such payments might later be held to be improper; provided, however, that (i) to the extent any such payment is ultimately held to be improper, the persons receiving such payments shall promptly refund them and (ii) such persons shall provide to the Company, upon request, reasonable assurances of their ability to effect any refund, when and if due.

12. PERSONS ENTITLED TO BENEFIT OF AGREEMENT. This Agreement shall inure to the benefit of Daisytek, the Company and the several Underwriters and, with respect to the provisions of Section 7 hereof, the several parties (in addition to Daisytek, the Company and the several Underwriters) indemnified under the provisions of said Section 7, and their respective personal representatives, successors and assigns. Nothing in this Agreement is intended or shall be construed to give to any other person, firm or corporation any legal or equitable remedy or claim under or in respect of this Agreement or any provision herein contained. The term "successors and assigns" as herein used shall not include any purchaser, as such purchaser, of any of the Stock from any of the several Underwriters.

13. NOTICES. Except as otherwise provided herein, all communications hereunder shall be in writing or by telegraph and, if to the Underwriters, shall be mailed, telegraphed or delivered to Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104; and if to the Company or Daisytek, shall be mailed, telegraphed or delivered to the Company's office, 500 North Central Expressway, Plano, Texas 75074, Attention: Mark C. Layton. All notices given by telegraph shall be promptly confirmed by letter.

14. MISCELLANEOUS. The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or Daisytek or their respective directors or officers, and (c) delivery and payment for the Stock under this Agreement; provided, however, that if this Agreement is terminated prior to the Closing Date, the provisions of

paragraph (k) of Section 6 hereof all be of no further force or effect.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

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Please sign and return to the Company the enclosed duplicates of this letter, whereupon this letter will become a binding agreement among the Company, Daisytek and the several Underwriters in accordance with its terms.

Very truly yours,

PFSWEB, INC.

By \_\_\_\_\_

Name:  
Title:

DAISYTEK INTERNATIONAL CORPORATION

By \_\_\_\_\_

Name:  
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

HAMBRECHT & QUIST LLC  
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated  
Jefferies & Company, Inc.  
By Hambrecht & Quist LLC

By \_\_\_\_\_

Name \_\_\_\_\_

Acting on behalf of the several Underwriters, including themselves, named in Schedule I hereto.

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SCHEDULE I  
UNDERWRITERS

UNDERWRITERS -----	NUMBER OF SHARES TO BE PURCHASED -----
Hambrecht & Quist LLC	1,275,000
LEAD MANAGER (1)	1,275,000
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated	701,250
Jefferies & Company, Inc.	573,750
CO-MANAGER (2)	1,275,000
Robert W. Baird & Co. Incorporated	50,000
Baldwin, Anthony, McIntyre	50,000
J. C. Bradford & Co.	50,000
First Southwest Company	50,000
McDonald Investments Inc.	50,000
The Robinson-Humphrey Company, LLC	50,000
Sanders Morris Mundy	50,000
Southwest Securities, Inc.	50,000
Stephens Inc.	50,000
Tucker Anthony Cleary Gull	50,000
B.C. Ziegler and Company	50,000
UNDERWRITER (11)	550,000
 TOTAL (14)	 3,100,000

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ANNEX A

FORM OF OPINION OF WOLFF & SAMSON, P.A.  
COUNSEL FOR THE COMPANY AND DAISYTEK

We have acted as counsel to PFSweb, Inc., a Delaware corporation (the "Company") and Daisytek International Corporation, a Delaware corporation ("Daisytek"), in connection with the issuance and sale by the Company of 3,100,000 shares of its authorized but unissued Common Stock, \$0.001 par value (the "Common Stock") (said 3,100,000 shares of Common Stock being herein called the "Underwritten Stock") and the to grant to the Underwriters (as hereinafter defined) an option to purchase up to 465,000 additional shares of Common Stock (herein called the "Option Stock" and with the Underwritten Stock herein collectively called the "Stock") pursuant to an Underwriting Agreement dated December 1, 1999 (the "Underwriting Agreement") by and among the Company, Daisytek, Hambrecht & Quist LLC, Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, and Jefferies & Company, Inc., as Representatives of the several underwriters named in Schedule A thereto (collectively, the "Underwriters").

This opinion is being furnished to you pursuant to Sections 9(c) of the Underwriting Agreement. Capitalized terms used and not otherwise defined herein shall have the respective meanings set forth in the Underwriting Agreement.

In connection with this opinion, we have examined originals or copies, certified or otherwise identified to our satisfaction, of (i) the Underwriting Agreement, (ii) the Registration Statement, (iii) the Preliminary Prospectus and the Prospectus, (iv) the Amended and Restated Certificate of Incorporation of the Company (the "Amended and Restated Certificate"); (vi) the Amended and Restated By-laws of the Company (the "By-laws"); (v) resolutions of the Board of Directors of the Company and Daisytek; (vi) a specimen certificate for the Common Stock; and (vii) such other documents as we have deemed necessary or appropriate as a basis for the opinions set forth below. We have also examined originals or copies, certified or otherwise identified to our satisfaction, of such records of the Company and such agreements, certificates, and receipt of public officials, certificates of officers or representatives of the Company and others, and such other documents, certificates and records as we have deemed

necessary or appropriate as a basis for the opinions set forth herein.

In our examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents. As to any facts material to the opinions expressed herein, we have relied to the extent we deemed appropriate upon the representations and warranties of the Company and Daisytek contained in the Underwriting Agreement, certificates of state authorities and public officials and statements and representations of officers of the Company and Daisytek.

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We are authorized to practice law in the State of New Jersey and we do not purport to be experts in, or to express any opinion hereunder concerning any law other than the laws of the State of New Jersey, the General Corporation Law of the State of Delaware (the "GCL") and federal law as of the date hereof. To the extent any documents, agreements or transactions as to which we express our opinion hereunder, or any of the parties thereto, are governed by the laws of other jurisdictions, we have assumed, without investigation and without expressing any opinion thereon, that the laws of such other jurisdictions are the same as the laws of the State of New Jersey.

Our opinions are limited to the specific issues addressed herein and are limited in all respects to existing laws and facts as of the date hereof. We disclaim any responsibility to advise you of any change to such laws or facts which may occur after the date hereof.

Based upon and subject to the foregoing and the limitations set forth below, we are of the opinion or advise you that:

(i) each of the Company and its U.S. subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, is duly qualified as a foreign corporation and in good standing in each state of the United States of America in which its ownership or leasing of property requires such qualification (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole), and has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; all the issued and outstanding capital stock of each of the U.S. subsidiaries of the Company has been duly authorized and validly issued and is fully paid and nonassessable, and is owned by the Company free and clear of all liens, encumbrances and security interests, and to the best of our knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in such subsidiaries are outstanding; Daisytek has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation;

(ii) the authorized capital stock of the Company consists of 1,000,000 shares of Preferred Stock, \$1.00 par value, and 40,000,000 shares of Common Stock, \$0.01 par value, of which, based upon our review of the Company's minute book, stock ledger and other applicable records, there are no shares of Preferred Stock outstanding and there are outstanding 17,405,000 shares of Common Stock (including the Underwritten Stock plus the number of shares of Option Stock issued on the date hereof) and such authorized capital stock conforms to the description thereof contained in the Prospectus; proper corporate proceedings have been validly taken to authorize such authorized capital stock; all of the outstanding shares of such capital stock (including the Underwritten Stock and the shares of Option Stock issued, if any) have been duly and validly issued and are fully paid and nonassessable; any Option Stock purchased after the Closing Date, when issued and delivered to and paid for by the Underwriters as provided in the Underwriting



Agreement, will have been duly and validly issued and be fully paid and nonassessable; and no preemptive rights of, or rights of refusal in favor of, stockholders exist with respect to the Stock, or the issue and sale thereof, pursuant to the Certificate of Incorporation or Bylaws of the Company and, to our knowledge, there are no contractual preemptive rights that have not been waived, rights of first refusal or right of co-sale which exist with respect to the issue and sale of the Stock;

(iii) the Registration Statement has become effective under the Securities Act and, to the best of our knowledge, no stop order suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus is in effect and no proceedings for that purpose have been instituted or are pending or, to our knowledge, are contemplated by the Commission;

(iv) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial data contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and with the rules and regulations of the Commission thereunder;

(v) we have participated in conferences with officers and other representatives of the Company and Daisytek, representatives of the independent public accountants of the Company and Daisytek and representatives of the Underwriters at which the contents of the Registration Statement and the Prospectus were discussed and, although we are not passing upon and do not assume responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus (except as, and to the extent, expressly stated above), on the basis of the foregoing, nothing has come to our attention that causes us to believe that on the Effective Date the Registration Statement (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein, as to which we express no opinion or belief) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein, as to which we express no opinion or belief) as of its date or at the Closing Date, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(vi) the information required to be set forth in the Registration Statement in answer to Items 9, 10 (insofar as it relates to our firm) and 11(c) of Form S-1 is, to the best of our knowledge, accurately and adequately set forth therein in all material respects or no response is required with respect to such Items, and the description of the Company's stock option plans and the options granted and which may be granted thereunder set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to said plans and options to the extent required by the Securities Act and the rules and regulations of the Commission thereunder;

(vii) we are not aware of (1) any franchises, contracts, leases or

documents which in our opinion are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not described and filed as required or (2) any legal proceedings, pending or threatened, which in our opinion are of a character required to be described in the Registration Statement or the Prospectus which are not described as required;

(viii) each of the Spin-off Agreements has been duly authorized, executed and delivered by the parties thereto and each of the Spin-off Agreements is a valid and binding agreement of the parties thereto enforceable in accordance with its terms;

(ix) the Underwriting Agreement has been duly authorized, executed and delivered by the Company and Daisytek;

(x) (1) the Underwriting Agreement and the issue and sale by the Company of the shares of Stock sold by the Company as contemplated therein and (2) the Spin-off Agreements and the transactions contemplated therein, in each case, do not and will not conflict with, or result in a breach of, the Certificate of Incorporation or Bylaws of Daisytek, the Company or any of their subsidiaries or any agreement or instrument known to us to which Daisytek, the Company or any of their subsidiaries is a party or by which any of the properties or assets of Daisytek, the Company or any of their subsidiaries may be bound or affected, or any applicable law or regulation, or so far as is known to us, any order, writ, injunction or decree, of any jurisdiction, court or governmental instrumentality;

(xi) to our knowledge, there are no holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company, that have not waived such rights, or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement;

(xii) no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in the Underwriting Agreement, except such as have been obtained under the Securities Act (and we express no opinion as to any necessary qualification under the securities or Blue Sky laws of the various jurisdictions in which the Shares are being offered by the Underwriters), or for the transactions contemplated in the Spin-off Agreements; and

(xiii) the Stock issued and sold by the Company is duly authorized for listing by the Nasdaq National Market.

Our opinions set forth above are subject to the following further limitations and qualifications.

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1. Our opinion set forth in Paragraph (vii) above is subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or similar laws affecting the enforcement of creditors rights generally and general principles of equity (regardless of whether considered in a proceeding in equity or at law), and we express no opinion as to whether a court would grant specific performance or any other equitable remedy with respect to enforcement of the agreements described therein or whether a court would grant a particular remedy sought under such agreements as opposed to another remedy provided therein or at law or in equity. Without limiting the foregoing, we express no opinion as to any limitations based on statute or public policy limiting a right to indemnification or a person's right to waive the benefits of statutory provisions or common law rights.

2. To the extent the purchase and distribution of Stock contemplated by the Underwriting Agreement is accomplished through a book entry closing, we have assumed, with your permission and without independent investigation, that (i) Depository Trust Company ("DTC") is registered as a "clearing agency" under Federal securities law, (ii) DTC, or one or more nominees designated by DTC, has acquired possession of and control over the Stock, (iii) the Stock is registered in the name of the DTC or one or more of its nominees or the certificates for

the Stock are in bearer form or endorsed in blank by the person specified by the certificated security to be entitled to the security and (iv) appropriate entries to the account of the Underwriters on the books of DTC have been made under Section 8-320 of the New York Uniform Commercial Code.

This opinion is furnished to you solely for your benefit and the benefit of the other Underwriters in connection with the closing under the Underwriting Agreement occurring today and is not to be used, circulated, quoted or otherwise referred to for any other purpose without our express written permission.

Very truly yours,

## MASTER SEPARATION AGREEMENT

dated as of

December 7, 1999

among

DAISYTEK INTERNATIONAL CORPORATION,

DAISYTEK, INCORPORATED,

PRIORITY FULFILLMENT SERVICES, INC.

and

PFSWEB, INC.

## MASTER SEPARATION AGREEMENT

This Master Separation Agreement ("Agreement") is entered into on December 7, 1999 among Daisytek International Corporation, a Delaware corporation ("Daisytek International"), Daisytek, Incorporated, a Delaware corporation ("Daisytek") and a wholly-owned subsidiary of Daisytek International, Priority Fulfillment Services, Inc., a Delaware corporation ("PFS") and a wholly-owned subsidiary of Daisytek, and PFSweb, Inc., a Delaware corporation ("PFSweb"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in Article 1 hereof.

## RECITALS

WHEREAS, the Boards of Directors of Daisytek International and Daisytek have determined that it would be appropriate and desirable to separate the PFS Business from Daisytek; and

WHEREAS, Daisytek has caused PFSweb to be incorporated in order to effect such separation, Daisytek currently owns all of the issued and outstanding common stock of PFSweb, and PFSweb currently conducts no business operations and has no significant assets or liabilities;

WHEREAS, the Boards of Directors of Daisytek and PFSweb have each determined that it would be appropriate and desirable for Daisytek to contribute and transfer to PFSweb, and for PFSweb to receive and assume, directly or indirectly, substantially all of the assets and liabilities currently associated with the PFS Business, including the stock currently held by Daisytek in PFS and the PFS Subsidiaries, and in connection therewith, for PFSweb to (i) pay to Daisytek the net book value of certain assets to be so transferred to it and (ii) contribute certain assets to PFS; and

WHEREAS, Daisytek and PFSweb intend that the contribution and assumption of assets and liabilities and payment, together with the Distribution (defined below) will qualify as a tax-free reorganization under Section 368(a)(1)(D) of the Code; and

WHEREAS, Daisytek and PFSweb currently contemplate that, concurrently with the contribution and assumption of assets and liabilities, PFSweb will consummate an initial public offering (the "IPO") of an amount of its Common Stock (the "PFSweb Common Stock") that will reduce Daisytek's ownership of

PFSweb to not less than 80%; and

WHEREAS, Daisytek plans that, as soon as practicable following the satisfaction of applicable conditions, and in no event later than 12 months following the IPO Closing Date, Daisytek will distribute to Daisytek International all of the shares of PFSweb common stock owned by Daisytek, and Daisytek International will, in turn, distribute such shares to the holders of its common stock, \$.01 par value, by means of a pro rata distribution, (the "Distribution"); and

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WHEREAS, Daisytek, Daisytek International and PFSweb intend that the Distribution will be tax-free to Daisytek, Daisytek International and its stockholders under the Code; and

WHEREAS, the parties intend in this Agreement to set forth the principal arrangements between them regarding the separation of the PFS Business from Daisytek.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

#### ARTICLE 1

##### DEFINITIONS

Section 1.01. Defined Terms. The following terms, as used herein, shall have the following meanings:

"Affiliate" of any specified Person means any other Person directly or indirectly Controlling, Controlled by, or under common Control with, such specified Person; provided, however, that for purposes of this Agreement, (i) Daisytek and its subsidiaries (other than PFSweb, PFS and the PFS Subsidiaries) shall not be considered Affiliates of PFSweb and (ii) PFSweb, PFS and the PFS Subsidiaries shall not be considered Affiliates of Daisytek.

"Ancillary Agreements" means each of the agreements to be entered into by and among Daisytek International, Daisytek, PFSweb and/or PFS in connection with the Distribution, including any exhibits, schedules, attachments, tables or other appendices thereto, and each agreement and other instrument contemplated therein.

"Business Day " means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of New York are authorized or obligated by law or executive order to close.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Commission" means the Securities and Exchange Commission.

"Confidential Information" means with respect to any party hereto, (i) any Information concerning such party, its business or any of its Affiliates that was obtained by another party hereto prior to the Contribution Date, (ii) any Information concerning such party that is obtained by another party under the provisions of this Agreement, or (iii) any other Information obtained by, or furnished to, another party hereto prior to the Contribution Date, in each case that (a) was marked "Proprietary" or "Company Private" or words of similar import by the party owning such Information, or any Affiliate of such party, or (b) the party owning such

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Information notified such other party in writing was confidential or secret by the Contribution Date.

"Contribution Date" means the IPO Closing Date.

"Contribution Schedule" means the schedule identified by Daisytek and PFSweb as the "Contribution Schedule" which sets forth (i) the assets, rights and benefits to be transferred by Daisytek to PFSweb, (ii) the liabilities, commitments and obligations of Daisytek to be assumed, discharged, paid or performed by PFSweb, and (iii) the PFS Intercompany Obligation.

"Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management of the policies of a Person, whether through the ownership of voting securities, by contract or otherwise. "controlling" and "controlled" have the corollary meanings ascribed thereto.

"Distribution" has the meaning set forth in the preamble to this Agreement.

"Distribution Date" means any date or dates, as the case may be, determined by Daisytek, in its sole and absolute discretion, to be a date on which shares of PFSweb Common Stock held by Daisytek are distributed in connection with the Distribution.

"Indemnifying Party" means any party hereto which, pursuant to the terms hereof, is obligated to indemnify any other party hereto.

"Indemnitee" means any party hereto which, pursuant to the terms hereof, is entitled to indemnification from any other party hereto.

"Information" means all records, books, contracts, instruments, computer data and other data.

"IPO" has the meaning set forth in the preamble to this Agreement.

"IPO Closing Date" means the date on which the consummation of the IPO shall occur.

"IPO Prospectus" means the Prospectus of PFSweb that forms a part of the IPO Registration Statement, together with all amendments and supplements thereto.

"IPO Registration Statement" means the registration statement on Form S-1, Registration No. 333-87657 filed by PFSweb with the Commission in connection with the IPO, together with all amendments and supplements thereto.

"Person" means an individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated association, any other entity, or a government or any

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department or agency or other unit thereof.

"PFS Business" means the business conducted by PFS and the PFS Subsidiaries at any time on or before the Contribution Date, including (i) all business operations of PFSweb described in the IPO Prospectus, (ii) all business operations initiated or acquired by PFS or any of the PFS Subsidiaries after the date of the IPO Prospectus and (iii) all business operations that were conducted at any time in the past by PFS or any of the PFS Subsidiaries or by any predecessor thereto (including, without limitation, Working Capital of America, Inc.) whether or not discontinued or disposed of prior to the date of the IPO Prospectus.

"PFS Intercompany Obligation" means the intercompany obligation owing by PFS to Daisytek as set forth in the Contribution Schedule.

"PFS Liabilities" means the liabilities, commitments and obligations of Daisytek designated as the "PFS Liabilities" in the Contribution Schedule.

"PFS Memphis Assets" means the assets, rights and benefits designated as the "PFS Memphis Assets" in the Contribution Schedule.

"PFS Subsidiaries" means, collectively, PFS, Priority Fulfillment Services Europe, B.V., a Netherlands corporation; and Priority Fulfillment Services Canada, Inc., a Canadian corporation.

"Prior Relationship" means the ownership relationship between Daisytek and PFSweb at any time prior to the Contribution Date.

"Representatives" means directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives.

"Subsidiary" means with respect to any specified Person, any corporation, any limited liability company, any partnership or other legal entity of which such Person or any of its Subsidiaries Controls or owns, directly or indirectly, more than 50% of the stock of other equity interest entitled to vote on the election of the members to the board of directors or similar governing body.

"Third-Party Claim" means any claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person other than any party hereto or their respective Affiliates which gives rise to a right of indemnification hereunder.

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## ARTICLE 2

### CONTRIBUTION AND ASSUMPTION

#### Section 2.01. Contribution of PFS Assets.

(a) On the Contribution Date, Daisytek shall contribute and transfer to PFSweb, all of Daisytek's right, title and interest in, to and under the following (collectively, the "PFS Assets"): (i) the PFS Memphis Assets, (ii) all of the issued and outstanding shares of capital stock or other equity interests in each of the PFS Subsidiaries, whereupon each of the PFS Subsidiaries shall become wholly-owned Subsidiaries of PFSweb and (iii) the sole outstanding limited liability company membership interest (the "Membership Interest") in PFS Texas, L.L.C., a Delaware limited liability company. PFSweb acknowledges and agrees that, except as set forth herein or in any of the Ancillary Agreements, the foregoing transfers are made "AS IS WHERE IS" and Daisytek has not made nor will make any warranty, express or implied, including without limitation any warranty of merchantability of fitness for a particular purpose, with respect to any PFS Asset.

(b) Immediately following the contribution and transfer of the PFS Assets as provided above, PFSweb shall contribute and transfer to PFS the PFS Memphis Assets and the Membership Interest.

Section 2.02. Assumption of Liabilities; Payment to Daisytek. As part of the Contribution, effective as of the Contribution Date, PFSweb and/or the PFS Subsidiaries, as directed by PFSweb, shall assume and on a timely basis shall pay, perform, satisfy and discharge in accordance with their terms the PFS Liabilities. As part of the Contribution, on the IPO Closing Date, or as soon thereafter as practicable, PFSweb shall pay to Daisytek the net book value of the PFS Assets as set forth in the Contribution Schedule. As part of the Contribution, on the IPO Closing Date, or as soon thereafter as practicable, PFSweb shall contribute to PFS sufficient funds for PFS to repay the then outstanding balance, both principal and interest, of the PFS Intercompany Obligation.

#### Section 2.03. Methods of Transfer and Assumption.

(a) The parties intend to complete the transfer of all PFS Assets and the assumption of all PFS Liabilities effective as of the Contribution Date; provided, however, that to the extent any such transfers or assumptions are not completed as of the Contribution Date, each party shall take all actions reasonably necessary or appropriate to complete such transactions as promptly thereafter as possible. In addition, the parties acknowledge that there may exist (i) PFS Assets or other assets that the parties discover were, by mistake or omission, transferred to PFSweb or retained by Daisytek, respectively, or (ii) PFS Liabilities or other liabilities that the parties discover were, by mistake or omission, assumed by PFSweb or not assumed by PFSweb, respectively. The parties shall, between the Contribution Date and the Distribution Date,

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cooperate in good faith to effect the transfer or re-transfer of such PFS Assets or other assets, and/or the assumption or re-assumption of such PFS Liabilities or other liabilities, to or by the appropriate party and shall not use such

mistake or omission to alter the original intent of the parties hereto with respect to the PFS Assets to be transferred to or PFS Liabilities to be assumed by PFSweb. Each party shall reimburse the other or make such other financial or other adjustments as may be equitable to remedy any mistakes or omissions relating to any of the PFS Assets transferred hereby or any of the PFS Liabilities assumed hereby.

(b) Each party shall execute and deliver to the relevant other party all such documents, instruments, certificates and agreements in appropriate form, and make all filings and recordings and take all such other actions, as shall be necessary or reasonably requested by such other party, whether before or after the Contribution Date, in order to give full effect to and evidence and perfect the transfer and contribution of the PFS Assets and assumption of the PFS Liabilities as contemplated hereby. However, the parties acknowledge and agree that no party shall be required to comply with the provisions of any bulk transfer law of any jurisdiction in connection with the transfer of any PFS Asset.

(c) Any Subsidiary of PFSweb that will receive any PFS Asset or assume any PFS Liability shall for all purposes be deemed to be a party to this Agreement.

Section 2.04. Nonassignable Contracts. Anything contained herein to the contrary notwithstanding, this Agreement shall not constitute an agreement to assign any PFS Asset or PFS Liability if an assignment or attempted assignment of the same without the consent of another Person would constitute a breach thereof or in any way impair the rights of a party thereunder or give to any third party any rights with respect thereto. If any such consent is not obtained or if an attempted assignment would be ineffective or would impair such party's rights under any such PFS Asset or PFS Liability so that the party entitled to the benefits and responsibilities of such purported transfer (the "Intended Transferee") would not receive all such rights and responsibilities, then (i) the party purporting to make such transfer (the "Intended Transferor") shall use commercially reasonable efforts to provide or cause to be provided to the Intended Transferee, to the extent permitted by law, the benefits of any such PFS Asset or PFS Liability and the Intended Transferor shall promptly pay or cause to be paid to the Intended Transferee when received all moneys received by the Intended Transferor with respect to any such PFS Asset and (ii) in consideration thereof the Intended Transferee shall pay, perform and discharge on behalf of the Intended Transferor all of the Intended Transferor's liabilities thereunder in a timely manner and in accordance with the terms thereof which it may do without breach. In addition, the Intended Transferor shall take such other actions as may reasonably be requested by the Intended Transferee in order to place the Intended Transferee, insofar as reasonably possible, in the same position as if such PFS Asset had been transferred as contemplated hereby and so all the benefits and burdens relating thereto, including possession, use, risk of loss, potential for gain and dominion, control and command, shall inure to the Intended Transferee. If and when such consents and approvals are obtained, the transfer of the applicable PFS Asset shall be effected in accordance with the terms of this Agreement. To the extent that the PFS Liabilities include liabilities, obligations or commitments pursuant to any

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contract, permit, license, franchise or other right, Daisytek shall, to the extent such contract, permit, license, franchise or other right is not a PFS Asset, upon request by PFSweb either assign the same to PFSweb or assert and seek to enforce the same for the benefit of PFSweb.

### ARTICLE 3

#### ANCILLARY AGREEMENTS

Section 3.01. Ancillary Agreements. Daisytek and PFSweb shall, and shall take all steps reasonably necessary to cause their respective Subsidiaries and Affiliates to, enter into and perform all Ancillary Agreements in accordance with their terms. To the extent that any Ancillary Agreement expressly addresses any matters addressed by this Agreement, the terms and conditions of such Ancillary Agreement shall govern the rights and obligations of the parties with respect to such matters.



ARTICLE 4

INDEMNIFICATION

Section 4.01. Indemnification by PFSweb. PFSweb and each Subsidiary of PFSweb which shall receive any PFS Asset or PFS Liability transferred pursuant to the terms of this Agreement and their respective successors-in-interest and assigns shall jointly and severally indemnify, defend and hold harmless Daisytek and each of its Subsidiaries and their respective successors-in-interest, and each of their respective past and present Representatives against any loss, claim, damage, liability or action, including any reasonable attorneys' fees or any other expenses reasonably incurred by any of them in connection with investigating and/or defending any such loss, claim, damage, liability or action, resulting from, relating to or arising, out of or in connection with the PFS Business, including without limitation, the PFS Liabilities, to the extent that any such loss, claim, damage, liability or action shall arise from and after the Contribution Date or shall relate to any period from and after the Contribution Date.

Section 4.02. Indemnification by Daisytek. Daisytek and each Subsidiary of Daisytek which shall transfer any PFS Asset or PFS Liability pursuant to the terms of this Agreement and their respective successors-in-interest and assigns shall jointly and severally indemnify, defend and hold harmless PFSweb and each of its Subsidiaries and their respective successors-in-interest, and each of their respective past and present Representatives against any loss, claim, damage, liability or action, including any reasonable attorneys' fees or any other expenses reasonably incurred by any of them in connection with investigating and/or defending any such loss, claim, damage, liability or action, resulting from, relating to or arising, out of or in connection with the PFS Business, including without limitation, the PFS Liabilities, to the extent that any such loss, claim, damage, liability or action shall arise prior to the Contribution Date or shall relate to any period prior to the Contribution Date.

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Section 4.03. Indemnification Procedures.

(a) If any Indemnitee receives notice of the assertion of any Third-Party Claim with respect to which an Indemnifying Party is obligated under this Agreement to provide indemnification, such Indemnitee shall promptly give such Indemnifying Party notice thereof (together with a copy of such Third-Party Claim, process or other legal pleading) promptly after becoming aware of such Third-Party Claim; provided, however, that the failure of any Indemnitee to give notice as provided in this Section shall not relieve any Indemnifying Party of its obligations, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail.

(b) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably acceptable to the Indemnitee), may elect to defend any Third-Party Claim. If an Indemnifying Party elects to defend a Third-Party Claim, then, within ten Business Days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third Party claim so requires), such Indemnifying Party shall notify the Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party shall pay such Indemnitee's reasonable out-of-pocket expenses incurred in connection with such cooperation. Such Indemnifying Party shall keep the Indemnitee reasonably informed as to the status of the defense of such Third-Party Claim. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party shall not be liable to such Indemnitee under this Section for any attorneys' fees or other expenses subsequently incurred by such Indemnitee in connection with the defense thereof; provided, however, that such Indemnitee shall have the right to employ one law firm as counsel ("Separate Counsel"), to represent such Indemnitee in any action or group of related actions (which firm or firms shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnitee's reasonable judgment at any time, either a conflict of interest between such Indemnitee and such Indemnifying Party exists in respect of such claim, or there may be defenses available to such Indemnitee which are significantly different from or in addition to those available to such Indemnifying Party and the representation of both parties by the same counsel

would, in the reasonable judgment of the Indemnitee, be inappropriate, and in that event (i) the reasonable fees and expenses of such Separate Counsel shall be paid by such Indemnifying Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one Separate Counsel with respect to any Third-Party Claim (even if against multiple Indemnitees)) and (ii) each of such Indemnifying Party and such Indemnitee shall have the right to conduct its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third-Party Claim, or fails to notify an Indemnitee of its election as provided in this Section within the period of ten Business Days described above, the Indemnitee may defend, compromise, and settle such Third-Party Claim and shall be entitled to indemnification hereunder (to the extent permitted hereunder); provided, however, that no such Indemnitee may compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnitee, (i) settle or compromise any Third-Party

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Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnitee of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that would be reasonably likely to have a material adverse effect on the Indemnitee.

#### Section 4.04. Certain Limitations.

(a) The amount of any indemnifiable losses or other liability for which indemnification is provided under this Agreement shall be net of any amounts actually recovered by the Indemnitee from third parties (including, without limitation, amounts actually recovered under insurance policies) with respect to such indemnifiable losses or other liability. Any Indemnifying Party hereunder shall be subrogated to the rights of the Indemnitee upon payment in full of the amount of the relevant indemnifiable loss. An insurer who would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provision hereof, have any subrogation rights with respect thereto. If any Indemnitee recovers an amount from a third party in respect of an indemnifiable loss for which indemnification is provided in this Agreement after the full amount of such indemnifiable loss has been paid by an Indemnifying Party or after an Indemnifying Party has made a partial payment of such indemnifiable loss and the amount received from the third party exceeds the remaining unpaid balance of such indemnifiable loss, then the Indemnitee shall promptly remit to the Indemnifying Party the excess (if any) of (i) the sum of the amount theretofore paid by such Indemnifying Party in respect of such indemnifiable loss plus the amount received from the third party in respect thereof, less (ii) the full amount of such indemnifiable loss or other liability.

(b) The amount of any loss or other liability for which indemnification is provided under this Agreement shall be (i) increased to take account of any net tax cost incurred by the Indemnitee arising from the receipt or accrual of an indemnification payment hereunder (grossed up for such increase) and (ii) reduced to take account of any net tax benefit realized by the Indemnitee arising from incurring or paying such loss or other liability. In computing the amount of any such tax cost or tax benefit, the Indemnitee shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt or accrual of any indemnification payment hereunder or incurring or paying any indemnified loss. Any indemnification payment hereunder shall initially be made without regard to this Section and shall be increased or reduced to reflect any such net tax cost (including gross-up) or net tax benefit only after the Indemnitee has actually realized such cost or benefit. For purposes of this Agreement, an Indemnitee shall be deemed to have "actually realized" a net tax cost or a net tax benefit to the extent that, and at such time as, the amount of taxes payable by such Indemnitee is increased above or reduced below, as the case may be, the amount of taxes that such Indemnitee would be required to pay but for the receipt or accrual of the indemnification payment or the incurrence or payment of such loss, as the case may be. Following such determination, the Indemnifying Party shall pay any underpayment to the Indemnitee and the Indemnitee shall reimburse the Indemnifying Party for any overpayment, respectively, as may arise from the foregoing adjustment.

(c) Any indemnification payment made under this Agreement shall be characterized for tax purposes as if such payment were made immediately prior to the Contribution Date.

## ARTICLE 5

### ACCESS TO INFORMATION

#### Section 5.01 Restrictions on Disclosure of Information.

(a) Without limiting any rights or obligations under any other agreement between or among the parties hereto and/or any of their respective Affiliates relating to confidentiality, for a period of three years following the Contribution Date, each of the parties hereto agrees that it shall not, and shall not permit any of its Affiliates or Representatives to, disclose any Confidential Information to any Person, other than to such Affiliates or Representatives on a need-to-know basis in connection with the purpose for which the Confidential Information was originally disclosed. Notwithstanding the foregoing, each of the parties hereto and its respective Affiliates and Representatives may disclose such Confidential Information, and such Information shall no longer be deemed Confidential Information, to the extent that such party can demonstrate that such Confidential Information is or was (i) available to such party outside the context of the Prior Relationship on a nonconfidential basis prior to its disclosure by the other party, (ii) in the public domain other than by the breach of this Agreement or by breach of any other agreement between or among the parties hereto and/or any of their respective Affiliates relating to confidentiality, or (iii) lawfully acquired outside the context of the Prior Relationship on a nonconfidential basis or independently developed by, or on behalf of, such party by Persons who do not have access to, or descriptions of, any such Confidential Information. Additionally, notwithstanding anything to the contrary herein, any Information provided by Daisytek to PFSweb or by PFSweb to Daisytek shall, except as otherwise set forth in any of the Ancillary Agreements, not be deemed Confidential Information with respect to the use of such Information by PFSweb in the ordinary course of the PFS Business or by Daisytek in the ordinary course of Daisytek's business, respectively.

(b) Each of the parties hereto shall maintain, and shall cause their respective Affiliates to maintain, policies and procedures, and develop such further policies and procedures as shall from time to time become necessary or appropriate, to ensure compliance with this Section.

Section 5.02. Legally Required Disclosure of Confidential Information. If any of the parties to this Agreement or any of their respective Affiliates or Representatives becomes legally required to disclose any Confidential Information, such disclosing party shall promptly notify the party owning the Confidential Information (the "Owning Party") and shall use all commercially reasonable efforts to cooperate with the Owning Party so that the Owning Party may seek a protective order or other appropriate remedy and/or waive compliance with Section 5.01. All expenses reasonably incurred by the disclosing party in seeking a protective order or

other remedy shall be borne by the Owning Party. If such protective order or other remedy is not obtained, or if the Owning Party waives compliance with Section 5.01, the disclosing party or its Affiliate or Representative, as applicable, shall (a) disclose only that portion of the Confidential Information which its legal counsel advises it is compelled to disclose or else stand liable for contempt or suffer other similar significant corporate censure or penalty, (b) use all commercially reasonable efforts, at the Owning Party's expense, to obtain such reliable assurance as may be reasonably requested by the Owning Party that confidential treatment will be accorded such Confidential Information, and (c) promptly provide the Owning Party with a copy of the Confidential Information so disclosed, in the same form and format so disclosed, together with a description of all Persons to whom such Confidential Information was disclosed.

Section 5.03. Record Retention. To the extent that books and records of Daisytek or any of its Affiliates contain information relating to the PFS Business and the same are not included in the PFS Assets, Daisytek agrees to cooperate with PFSweb in providing PFSweb with any such information upon PFSweb's reasonable request to the extent that any such information exists and is reasonably separable from Daisytek information unrelated to the PFS Business. PFSweb shall reimburse Daisytek for all of its reasonable out-of-pocket costs incurred in connection with any such request. PFSweb shall preserve and keep all books and records included in the PFS Assets, whether in electronic form or otherwise, for no less than the period of time from the Contribution Date as may be required by any governmental authority or agency or as may be considered good business practice (the "Retention Period"). If PFSweb wishes to dispose of any books and records or other documents which it is obligated to retain under this Section after the Retention Period, then PFSweb shall first provide 90 days' written notice to Daisytek and Daisytek shall have the right, at its option and expense, upon prior written notice within such 90-day period, to take possession of such books or records or other documents. Written notice of intent to dispose of such books and records shall include a description of the books and records in detail sufficient to allow Daisytek to reasonably assess its potential need to retain such materials. In the event PFSweb enters into an agreement with a third party to sell a portion of the PFS Business, together with the books and records related thereto, Daisytek shall have the right to duplicate such books and records prior to any such disposition and, should the purchaser of the PFS Business be a competitor of Daisytek, Daisytek shall have the right to prohibit the transfer or disclosure to such party of that portion of the former books and records of Daisytek which Daisytek notifies PFSweb then contains Confidential Information.

Section 5.04. Production of Witnesses. Until the six-year anniversary of the Contribution Date, each of the parties hereto shall use all commercially reasonable efforts, and shall cause each of their respective Affiliates to use all commercially reasonable efforts, to make available to each other, upon written request, its directors, officers, employees and other Representatives as witnesses to the extent that any such Person may reasonably be required (giving consideration to the business demands upon such Persons) in connection with any legal, administrative or other proceedings in which the requesting party may from time to time be involved; provided, however, that with respect to any legal or administrative proceedings relating to the tax liability of any of the parties hereto or any of their respective Affiliates, each of the parties hereto shall, and shall cause each of their respective Affiliates to, make their directors,

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officers, employees and other Representatives available as witnesses until such time as the statute of limitations have expired with respect to all tax years prior to and including the year in which the asset transfers contemplated by this Agreement are consummated.

Section 5.05. Reimbursement. Unless otherwise provided in this Article, each party to this Agreement providing access, information or witnesses to another party pursuant to this Agreement shall be entitled to receive from the recipient, upon the presentation of invoices therefor, payment for all reasonable out-of-pocket costs and expenses (excluding allocated compensation, salary and overhead expense) as may be reasonably incurred in providing such information or witnesses.

## ARTICLE 6

### MISCELLANEOUS

Section 6.01. Entire Agreement. This Agreement, including all the Ancillary Agreements, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

Section 6.02. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware regardless of the laws that might otherwise govern under principles of conflicts of laws applicable thereto.

Section 6.03. Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 6.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by telecopy with answer back, by express or overnight mail delivered by a nationally recognized air courier (delivery charges prepaid), or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at their chief executive offices, or to such other address as the party to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any notice or communication delivered in person shall be deemed effective on delivery. Any notice or communication sent by telecopy or by air courier shall be deemed effective on the first Business Day at the place at which such notice or communication is received following the day on which such notice or communication was sent. Any notice or communication sent by registered or certified mail shall be deemed effective on the fifth Business Day at the place from which such notice or communication was mailed following the day on which such notice or communication was mailed.

Section 6.05. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their legal representatives and successors, and each

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Subsidiary and each Affiliate of the parties hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except as otherwise expressly provided herein. Except as otherwise expressly set forth herein, this Agreement may not be assigned or transferred to any other Person without the prior written consent of each of the parties hereto.

Section 6.06. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

Section 6.07. Dispute Resolution. Except as otherwise set forth in the Ancillary Agreements, resolution of any and all disputes arising from or in connection with this Agreement, whether based on contract, tort, or otherwise (collectively, "Disputes"), shall be exclusively governed by and settled in accordance with the provisions of this Section. The parties hereto shall use all commercially reasonable efforts to settle all Disputes without resorting to mediation, arbitration, litigation or other third party dispute resolution mechanisms. If any Dispute remains unsettled, a party hereto may commence proceedings hereunder by first delivering a written notice from a Senior Vice President or comparable executive officer of such party (the "Demand") to the other parties providing a reasonable description of the Dispute to the others and expressly requesting mediation hereunder. The parties hereby agree to submit all Disputes to non-binding mediation before a mediator reasonably acceptable to all parties involved in such Dispute. If the parties are unable to agree upon a mediator or if, after such mediation, the parties subject to such mediation disagree regarding the mediator's recommendation, such Dispute shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in Dallas, Texas by three arbitrators acting by majority vote (the "Panel") selected by agreement of the parties, or, failing such agreement, appointed pursuant to the commercial arbitration rules of the American Arbitration Association, as amended from time to time (the "AAA Rules"). If an arbitrator so selected becomes unable to serve, his or her successors shall be similarly selected or appointed. The arbitration shall be conducted pursuant to the Federal Arbitration Act and such procedures as the parties subject to such arbitration (each, a "Party") may agree, or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing: (i) each Party shall have the right to inspect the books and records of the other Party that are reasonably related to the Dispute; (ii) each Party shall provide to the other, reasonably in advance of any hearing, copies of all documents which a Party intends to present in such hearing; and (iii) each Party shall be allowed to conduct reasonable discovery through written requests for information, document requests, requests for stipulation of fact and depositions, the nature and extent of which discovery shall be determined by the Parties; provided that if the Parties cannot agree on the terms of such

discovery, the nature and extent thereof shall be determined by the Panel which shall take into account the needs of the Parties and the desirability of making discovery expeditious and cost effective. The award shall be in writing and shall specify the factual and legal basis for the award. The Panel shall apportion all costs and expenses of arbitration, including the Panel's fees and expenses and fees and expenses of experts, between the prevailing and non-prevailing Party as the Panel deems fair and reasonable. The parties hereto agree that monetary damages may be

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inadequate and that any party by whom this Agreement is enforceable shall be entitled to seek specific performance of the arbitrators' decision from a court of competent jurisdiction, in addition to any other appropriate relief or remedy. Notwithstanding the foregoing, in no event may the Panel award consequential, special, exemplary or punitive damages. Any arbitration award shall be binding and enforceable against the parties hereto and judgment may be entered thereon in any court of competent jurisdiction.

Section 6.08. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

Section 6.09. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 6.10. Amendment. No change or amendment will be made to this Agreement except by an instrument in writing signed on behalf of each of the parties to be bound by such change or amendment.

Section 6.11. Authority. Each of the parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement and the Ancillary Agreements, (b) the execution, delivery and performance of this Agreement and the Ancillary Agreements by it have been duly authorized by all necessary corporate or other action, (c) it has duly and validly executed and delivered this Agreement and the Ancillary Agreements, and (d) this Agreement and each Ancillary Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

Section 6.12. Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When a reference is made in this Agreement to an Article or a Section, such reference shall be to an Article or Section of this Agreement unless otherwise indicated.

[remainder of page is blank]

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IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and

year first above written.

DAISYTEK INTERNATIONAL CORPORATION

By: \_\_\_\_\_

Name:  
Title:

DAISYTEK, INCORPORATED

By: \_\_\_\_\_

Name:  
Title:

PRIORITY FULFILLMENT SERVICES, INC.

By: \_\_\_\_\_

Name:  
Title:

PFSWEB, INC.

By: \_\_\_\_\_

Name:  
Title:

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EXHIBIT 2.2

INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

dated as of December 7, 1999

by and among

DAISYTEK INTERNATIONAL CORPORATION,

DAISYTEK, INCORPORATED

and

PFSWEB, INC.

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INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

This INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT (the "Agreement") is made and entered into as of December 7, 1999, by and among

Daisytek International Corporation, a Delaware corporation ("Daisytek International"), Daisytek, Incorporated, a Delaware corporation and a wholly-owned subsidiary of Daisytek International ("Daisytek"), and PFSweb, Inc., a Delaware corporation and a wholly-owned subsidiary of Daisytek ("PFSweb"). Certain capitalized terms used herein are defined in Section 1 of this Agreement.

#### RECITALS

WHEREAS, the Boards of Directors of Daisytek International and Daisytek have determined that it would be appropriate and desirable to completely separate the PFS Business from Daisytek;

WHEREAS, Daisytek has caused PFSweb to be incorporated in order to effect such separation;

WHEREAS, Daisytek and PFSweb are parties to the Separation Agreement pursuant to which Daisytek will contribute and transfer to PFSweb, and PFSweb will receive and assume, the assets and liabilities then associated with the PFS Business as described therein;

WHEREAS, Daisytek and PFSweb intend that the Contribution, together with the Distribution, qualify as a tax-free reorganization under Section 368(a)(1)(D) of the Code;

WHEREAS, Daisytek currently owns all of the issued and outstanding PFSweb Common Stock;

WHEREAS, the parties currently contemplate that PFSweb shall consummate the Initial Public Offering;

WHEREAS, immediately following the consummation of the Initial Public Offering, Daisytek shall own not less than 80% of the outstanding shares of PFSweb Common Stock;

WHEREAS, Daisytek plans to divest itself of its entire ownership of PFSweb by distributing all of its shares of PFSweb Common Stock to Daisytek International, which, in turn, will distribute in the Distribution all of such shares of PFSweb Common Stock to the holders of Daisytek Common Stock;

WHEREAS, Daisytek International, Daisytek and PFSweb intend that the Distribution will be tax-free to Daisytek, Daisytek International and its stockholders under Sections 355 and 368(a)(1)(D) of the Code;

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WHEREAS, the parties intend in this Agreement to set forth the principal arrangements between them regarding the Initial Public Offering and the Distribution; and

WHEREAS, the parties hereto have determined that in order to accomplish the objectives of the Initial Public Offering and the Distribution and to facilitate the consummation thereof, it is necessary and desirable to enter into the agreements and understandings set forth herein;

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereby agree as follows:

#### 1. DEFINITIONS.

"Active Trade or Business" means the active conduct of the trade or business (as defined in Section 355(b)(2) of the Code) conducted by PFSweb immediately prior to the Distribution Date.

"Affiliate" means a PFSweb Affiliate or a Daisytek Affiliate, as the case may be.



"Ancillary Agreements" has the meaning ascribed to such term in the Separation Agreement.

"Annual Financial Statements" has the meaning set forth in Section 5.1 (a) (vi).

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions located in the State of New York are authorized or obligated by law or executive order to close.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Consent" means any consent of, waiver or approval from, or notification to, any Person.

"Contribution" means the transfer of certain assets by Daisytek to PFSweb (and the assumption by PFSweb of certain liabilities) as contemplated by the Separation Agreement.

"Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

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"CPR Rules" means the Rules for Non-Administered Arbitration of Business Disputes promulgated by the Center for Public Resources, as in effect on the date hereof.

"D Reorganization" means a transaction qualifying as a reorganization under Section 368(a) (1) (D) of the Code.

"Daisytek Affiliate" means a Person, other than PFSweb or a PFSweb Affiliate, that, after giving effect to the Distribution, directly or indirectly through one or more intermediaries, is Controlled by Daisytek International.

"Daisytek Annual Statements" has the meaning set forth in Section 5.1(b) (ii).

"Daisytek's Auditors" has the meaning set forth in Section 5.1(b) (ii).

"Daisytek Business" means any business or operations of Daisytek or any Daisytek Affiliates other than the PFS Business.

"Daisytek Common Stock" means the Common Stock, par value \$.01 per share, of Daisytek International.

"Daisytek Disclosure Portions" means all material set forth in, or incorporated by reference into, either the IPO Registration Statement or the Distribution Registration Statement, as applicable, to the extent relating exclusively to (i) Daisytek and the Daisytek Affiliates (excluding PFSweb and the PFSweb Affiliates), (ii) the Daisytek Business, (iii) Daisytek's intentions with respect to the Distribution or (iv) the terms of the Distribution, including, without limitation, the form, structure and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing of and conditions to the consummation of the Distribution.

"Daisytek Option" means an option to purchase shares of Daisytek Common Stock issued under any stock option plan of Daisytek International.

"Daisytek Public Filings" has the meaning set forth in Section 5.1(a) (xiii).

"Daisytek Transfer Agent" means ChaseMellon Shareholder Services LLC, in its capacity as the transfer agent and registrar for the Daisytek Common Stock.

"Dispute Notice" means written notice of any dispute between Daisytek and PFSweb arising out of or relating to this Agreement, which shall set forth, in reasonable detail, the nature of the dispute.

"Distribution" means the distribution of PFSweb Common Stock by Daisytek to Daisytek International and thereafter by Daisytek International in one or more transactions occurring after the Initial Public Offering that collectively have the effect that all shares of PFSweb Common Stock held by Daisytek are distributed to Daisytek International stockholders, whenever such transaction(s) shall occur.

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"Distribution Date" means any date or dates, as the case may be, determined by Daisytek, in its sole and absolute discretion, to be a date on which shares of PFSweb Common Stock held by Daisytek are distributed in connection with the Distribution.

"Distribution Registration Statement" means any and all registration statements, information statements or other documents, if any, filed by any party with the SEC in connection with any transaction constituting part of the Distribution, in each case as supplemented or amended from time to time.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, together with the rules and regulations promulgated thereunder.

"GAAP" means generally accepted accounting principles, consistently applied.

"Indemnifying Party" means a Person that is obligated to provide indemnification under this Agreement.

"Indemnitee" means a Person that is entitled to seek indemnification under this Agreement.

"Indemnity Payment" means an amount that an Indemnifying Party is required to pay to an Indemnitee under this Agreement.

"Initial Public Offering" or "IPO" means the initial public offering by PFSweb of shares of PFSweb Common Stock as contemplated by the IPO Registration Statement.

"Insurance Proceeds" means the payment received by an insured from an insurance carrier or paid by an insurance carrier on behalf of the insured, net of any applicable premium adjustment and tax effect.

"IPO Registration Statement" means the Registration Statement on Form S-1, Registration No. 333-87657, of PFSweb, as supplemented and amended from time to time.

"IRS" means Internal Revenue Service of the U.S. Department of Treasury or any successor agency.

"Losses" means all losses, liabilities, claims, obligations, demands, judgments, damages, dues, penalties, assessments, fines (civil or criminal), costs, liens, expenses, forfeitures, settlements, or fees, reasonable attorneys' fees and court costs, of any nature or kind, whether or not the same would properly be reflected on a balance sheet, and "Loss" means any of these.

"Negotiation Period" means the period of 20 Business Days following the initial meeting of the representatives of Daisytek and PFSweb following the receipt of a Dispute Notice.

"Notice" means any notice, request, claim, demand, or other communication under this Agreement.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"PFS Business" has the meaning ascribed to such term in the Separation Agreement.

"PFSweb Affiliate" means a Person, other than Daisytek International or a Daisytek Affiliate, that, after giving effect to the Distribution, directly or indirectly through one or more intermediaries, is Controlled by, or is under common Control with PFSweb.

"PFSweb Capital Stock" means all classes or series of capital stock of PFSweb.

"PFSweb Common Stock" means the Common Stock of PFSweb.

"PFSweb Employee" means an individual employed by Daisytek or any Daisytek Affiliate who becomes employed by PFSweb or any PFS Affiliate in connection with the Distribution.

"PFSweb Option" means an option to purchase shares of PFSweb Common Stock issued under a stock option plan of PFSweb.

"PFSweb Public Documents" has the meaning set forth in Section 5.1(a)(ix).

"PFSweb Transfer Agent" means ChaseMellon Shareholder Services LLC, in its capacity as the transfer agent and registrar for the PFSweb Common Stock.

"PFSweb's Auditors" has the meaning set forth in Section 5.1(b)(i).

"Pre-Distribution Period" means the period of time from the date hereof until the completion of the Distribution.

"Proposed Acquisition Transaction" means a transaction or series of transactions as a result of which any Person or any group of related Persons would (directly or indirectly) acquire, or have the right to acquire, from PFSweb or one or more holders of outstanding shares of PFSweb Capital Stock, a number of shares of PFSweb Capital Stock that would comprise 50% or more of (i) the value of all outstanding shares of PFSweb Capital Stock as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (ii) the total combined voting power of all outstanding shares of Voting Stock of PFSweb as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series.

"Quarterly Financial Statements" has the meaning set forth in Section 5.1(a)(v).

"Ratio" means the amount determined by dividing (i) the average of the daily high and low per share prices of the Daisytek Common Stock, as reported in The Wall Street Journal, during the three trading days

ending on the Record Date, by (ii) the average of the daily high and low per share prices of the PFSweb Common Stock, as reported in The Wall Street Journal, for the three trading days commencing on the first trading day following the Record Date.

"Record Date" means the close of business on the date(s) to be determined by the Board of Directors of Daisytek International as the record date(s) for determining stockholders of Daisytek International entitled to receive shares of PFSweb Common Stock in the Distribution.

"Regulation S-K" means Regulation S-K of the General Rules and Regulations promulgated by the SEC.

"Regulation S-X" means Regulation S-X of the General Rules and Regulations promulgated by the SEC.

"Representation Date" means any date on which PFSweb makes any representation (i) to the IRS or to counsel selected by Daisytek for the purpose of obtaining a Subsequent Tax Opinion/Ruling, or (ii) to Daisytek for the purpose of any determination required to be made by Daisytek pursuant to Section 4.2.

"Representation Letters" means any representation letters and any other materials (including, without limitation, the ruling request and the related supplemental submissions to the IRS) delivered or deliverable by Daisytek and others in connection with the rendering by Tax Advisor and/or the issuance by the IRS of the Tax Opinions/Rulings, which to the extent related to PFSweb shall be in form and substance reasonably satisfactory to PFSweb.

"Representative" means, with respect to any Person, any of such Person's directors, officers, employees, agents, consultants, advisors, accountants or attorneys.

"Request" has the meaning set forth in Section 6.7.

"SEC" means the United States Securities and Exchange Commission or any successor agency.

"Securities Act" means the Securities Act of 1933, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Separation Agreement" means the Master Separation Agreement by and among Daisytek International, Daisytek, Priority Fulfillment Services, Inc. and PFSweb, as amended from time to time.

"Subsequent Tax Opinion/Ruling" means either (i) any opinion of Tax Advisor selected by Daisytek, in its sole and absolute discretion, confirming, in form and substance reasonably satisfactory to Daisytek, that, as a consequence of the consummation of a subsequent transaction, no income, gain or loss for U.S. federal income tax purposes will be recognized by Daisytek, Daisytek International, the stockholders or former stockholders of Daisytek International, or any Daisytek Affiliate with respect to the Distribution, or (ii) an IRS private letter ruling to the same effect.

"Subsidiary" means with respect to any specified Person, any corporation or other legal entity of which such Person or any of its Subsidiaries Controls or owns, directly or indirectly, more than 50% of the stock or other equity interest entitled to vote with respect to the election of members to the board of directors or similar governing body; provided, however, that for the purposes of this Agreement, neither PFSweb nor any of the Subsidiaries of PFSweb shall be deemed to be Subsidiaries of Daisytek or of any of the Subsidiaries of Daisytek.

"Tax" means (i) any income, gross receipts, license, payroll,

employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on, minimum, estimated, or other tax, assessment, or governmental charge of any kind whatsoever imposed by any governmental authority, including any interest, penalty, or addition thereto, whether disputed or not; (ii) any liability for the payment of any amounts of the type described in clause (i) above arising as a result of being (or having been) a member of any group or being (or having been) included or required to be included in any Tax Return related thereto; and (iii) any liability for the payment of any amounts of the type described in clause (i) above as a result of any express or implied obligation to indemnify or otherwise assume or succeed to the liability of any other Person.

"Tax Advisor" means the professional accounting or law firm designated by Daisytek as its Tax Advisor.

"Tax Agreement" means the Tax Sharing Agreement between Daisytek and PFSweb, as amended from time to time.

"Tax Control" means, with respect to PFSweb, ownership of PFSweb Capital Stock which constitutes at least 80% of both (i) the total combined voting power of all outstanding shares of Voting Stock of PFSweb and (ii) each class and series of PFSweb Capital Stock other than Voting Stock of PFSweb.

"Tax-Free Status of the Distribution" means the nonrecognition of taxable gain or loss for U.S. federal income tax purposes to Daisytek International, Daisytek, Daisytek Affiliates and Daisytek International's stockholders in connection with the Distribution.

"Tax Opinions/Rulings" means any opinions of Tax Advisor and/or the rulings by the IRS deliverable to Daisytek in connection with the Contribution and the Distribution.

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"Tax-Related Losses" means (i) all federal, state and local Taxes (including interest and penalties thereon) imposed pursuant to any settlement, final determination, judgment or otherwise; (ii) all accounting, legal and other professional fees, and court costs incurred in connection with such taxes; and (iii) all costs and expenses that may result from adverse tax consequences to Daisytek, Daisytek International or its stockholders (including all costs, expenses and damages associated with stockholder litigation or controversies) payable by Daisytek or Daisytek Affiliates.

"Third-Party Claim" means any claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person other than Daisytek or any Daisytek Affiliate or PFSweb or any PFSweb Affiliate which gives rise to a right of indemnification hereunder.

"Underwriters" means the managing underwriters for the IPO.

"Underwriting Agreement" means the Underwriting Agreement between PFSweb and the Underwriters relating to the Initial Public Offering, as amended from time to time.

"Value" means with respect to any trade or business (or portion thereof), the fair market value of the assets constituting such trade or business, less the current liabilities associated with such trade or business, in each case determined as of the Distribution Date.

"Voting Stock" means with respect to any Person, all classes and series of the capital stock of such Person entitled to vote generally in the election of directors.

2. THE INITIAL PUBLIC OFFERING AND THE DISTRIBUTION.

2.1. Transactions Prior To The IPO. Subject to the conditions hereof, Daisytek International and PFSweb shall use their reasonable best efforts to consummate the IPO. Such actions shall include those specified in this Section 2.1.

(a) PFSweb shall file the IPO Registration Statement, and such amendments or supplements thereto, as may be necessary in order to cause the same to become and remain effective as required by law or by the Underwriters, including, but not limited to, filing such amendments to the IPO Registration Statement as may be required by the Underwriting Agreement, the SEC or federal, state or foreign securities laws. Daisytek International and PFSweb shall also cooperate in preparing, filing with the SEC and causing to become effective a registration statement registering the PFSweb Common Stock under the Exchange Act, and any registration statements or amendments thereof which are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the IPO, the Distribution or the other transactions contemplated by this Agreement and the Ancillary Agreements.

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(b) PFSweb and Daisytek International shall enter into the Underwriting Agreement, in form and substance reasonably satisfactory to them and each shall comply with its respective obligations thereunder.

(c) Daisytek International and PFSweb shall consult with each other and the Underwriters regarding the timing, pricing and other material matters with respect to the IPO.

(d) PFSweb shall use its reasonable best efforts to take all such action as may be necessary or appropriate under state securities and blue sky laws of the United States (and any comparable laws under any foreign jurisdictions) in connection with the IPO.

(e) PFSweb shall prepare, file and use reasonable best efforts to seek to make effective, an application for listing of the PFSweb Common Stock issued in the IPO on the NASDAQ National Market, subject to official notice of issuance.

(f) PFSweb shall participate in the preparation of materials and presentations as the Underwriters shall deem necessary or desirable.

2.2. Proceeds of the IPO. The IPO will be a primary offering of PFSweb Common Stock and the net proceeds of the IPO will be retained by PFSweb, subject to the payments to be made under the Separation Agreement.

2.3. Conditions Precedent to Consummation of the IPO. The obligations of the parties to consummate the IPO shall be conditioned on such conditions as Daisytek International shall determine in its sole and absolute discretion, which conditions, or any of them, may be waived by Daisytek International in its sole and absolute discretion, including without limitation, the following conditions, which shall be for the sole benefit of Daisytek International and shall not give rise to or create any duty on the part of Daisytek International or any Daisytek Affiliate or their Board of Directors to waive or not waive any such condition:

(a) The IPO Registration Statement shall have been filed and declared effective by the SEC, and there shall be no stop order in effect with respect thereto.

(b) The actions and filings with regard to state securities and blue sky laws of the United States (and any comparable laws under any foreign jurisdictions) described in Section 2.1 shall have been taken and, where applicable, have become effective or been accepted.

(c) The PFSweb Common Stock to be issued in the IPO

shall have been accepted for listing on the NASDAQ National Market, on official notice of issuance.

(d) PFSweb shall have entered into the Underwriting Agreement and all conditions to the obligations of PFSweb and the Underwriters shall have been satisfied or waived.

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(e) Daisytek International shall be satisfied in its sole discretion that Daisytek will own at least 80% of the voting rights attached to the then outstanding PFSweb Common Stock immediately following the IPO, and, to the extent deemed necessary or desirable by Daisytek International in its sole discretion, all other matters regarding the Tax-Free Status of the Distribution shall, to the extent applicable as of the time of the IPO, be satisfied or can reasonably be anticipated to be satisfied and there shall be no event or condition that is likely to cause any of such conditions not to be satisfied as of the time of the Distribution or thereafter.

(f) No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the IPO or any of the other transactions contemplated by this Agreement or any Ancillary Agreement shall be in effect.

(g) Such other actions as the parties hereto may, based upon the advice of counsel, reasonably request to be taken prior to the IPO in order to assure the successful completion of the IPO and the other transactions contemplated by this Agreement shall have been taken.

2.4. The Distribution. Daisytek and Daisytek International pan, as soon as practicable after the satisfaction of applicable conditions, and not later than 12 months following the consummation of the Initial Public Offering, to complete the Distribution. PFSweb shall cooperate with Daisytek in all respects to accomplish the Distribution and shall, at Daisytek International's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including, without limitation, to the extent necessary under then applicable law, the registration under the Securities Act of PFSweb Common Stock on an appropriate registration form or forms to be designated by Daisytek International. Daisytek International shall select any investment banker(s) and manager(s) in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and outside counsel for Daisytek International; provided that nothing herein shall prohibit PFSweb from engaging (at its own expense) its own financial, legal, accounting and other advisors in connection with the Distribution.

2.5. Certain Stockholder Matters. From and after the distribution of PFSweb Common Stock in connection with any transaction(s) included as part of the Distribution and until such PFSweb Common Stock is duly transferred in accordance with applicable law, PFSweb shall regard the Persons receiving PFSweb Common Stock in such transaction(s) as record holders of PFSweb Common Stock in accordance with the terms of such transaction(s) without requiring any action on the part of such Persons. PFSweb agrees that, subject to any transfers of such stock, (a) each such holder shall be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, the shares of PFSweb Common Stock then held by such holder and (b) each such holder shall be entitled, without any action on the part of such holder, to receive one or more certificates representing, or other evidence of ownership of, the shares of PFSweb Common Stock then held by such holder. Daisytek International and Daisytek shall cooperate, and shall instruct the Daisytek Transfer Agent to cooperate, with PFSweb and the PFSweb Transfer Agent, and PFSweb shall cooperate, and shall instruct the PFSweb Transfer Agent to cooperate, with Daisytek International, Daisytek and the

Daisytek Transfer Agent, in connection with all aspects of the Distribution and all other matters relating to the issuance and delivery of certificates representing, or other evidence of ownership of, the shares of PFSweb Common Stock distributed to the holders of Daisytek Common Stock in connection with any transaction(s) included as part of the Distribution. Following the Distribution, Daisytek International shall instruct the Daisytek Transfer Agent to deliver to the PFSweb Transfer Agent true, correct and complete copies of the stock and transfer records reflecting the holders of Daisytek Common Stock receiving shares of PFSweb Common Stock in connection with any transaction(s) included as part of the Distribution.

2.6. Means of Distribution. (a) Subject to Section 2.4 hereof, on or prior to the Distribution Date, Daisytek will distribute and deliver to Daisytek International who, in turn, will deliver to the Daisytek Transfer Agent for the benefit of holders of record of Daisytek Common Stock on the Record Date, a single stock certificate, endorsed in blank, representing all of the outstanding shares of PFSweb Common Stock then owned by it, which certificate shall be reissued in sufficient manner so that the Daisytek Transfer Agent may, and shall be instructed to, distribute on the Distribution Date the appropriate number of such shares of PFSweb Common Stock to each such holder of record of Daisytek Common Stock on the Record Date or designated transferee or transferees of such holder.

(b) Subject to Section 2.4, each holder of Daisytek Common Stock on the Record Date (or such holder's designated transferee or transferees) will be entitled to receive in the Distribution a number of shares of PFSweb Common Stock equal to the number of shares of Daisytek Common Stock held by such holder on the Record Date multiplied by a fraction, the numerator of which is the number of shares of PFSweb Common Stock beneficially owned by Daisytek International on the Record Date and the denominator of which is the number of shares of Daisytek Common Stock issued and outstanding on the Record Date.

2.7. Actions Prior to the Distribution. (a) Daisytek International and PFSweb shall prepare and mail, prior to the Distribution Date, to the holders of Daisytek Common Stock, such information concerning PFSweb, its business, operations and management, the Distribution and such other matters as Daisytek International shall reasonably determine and as may be required by law. Daisytek International and PFSweb will prepare, and PFSweb will, to the extent required under applicable law, file with the SEC any such documentation which Daisytek International determines are necessary or desirable to effectuate the Distribution, and Daisytek International and PFSweb shall each use its reasonable best efforts to obtain all necessary approvals from the SEC with respect thereto as soon as practicable.

(b) Daisytek International and PFSweb shall take all such action as may be necessary or appropriate under the securities or blue sky laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Distribution.

(c) PFSweb shall prepare and file, and shall use its reasonable best efforts to have approved, an application for the listing on the NASDAQ National Market, subject to official notice of distribution of the PFSweb Common Stock to be distributed in the

Distribution, and the shares of PFSweb Common Stock covered by PFSweb Options to be granted under Section 3.6 below.

2.8. Conditions To Distribution. The consummation of the Distribution is subject to the following conditions, which conditions, or any of them, may be waived by Daisytek in its sole and absolute discretion:

(a) The receipt by Daisytek International of either,



at its option and in its sole and absolute discretion (i) a ruling by the IRS that, among certain other Tax consequences of the transaction, the Contribution and Distribution will qualify as tax-free for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek, Daisytek International or the holders of Daisytek Common Stock or (ii) an opinion from its Tax Advisor regarding the Tax-Free Status of the Distribution and such other matters, in form and substance satisfactory to it, as it shall determine to be necessary or advisable in its sole and absolute discretion;

(b) The receipt of any material Consents necessary to consummate the Distribution, which Consents shall be in full force and effect;

(c) No order, injunction, decree or regulation issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution shall be in effect; and

(d) No events or developments shall have occurred subsequent to the IPO Closing Date that, in the sole judgment of Daisytek, would result in the Distribution having a material adverse effect on Daisytek, any Daisytek Affiliate any holder of Daisytek Common Stock, PFSweb, any PFSweb Affiliate or any holder of PFSweb Common Stock.

The foregoing conditions are for the sole benefit of Daisytek International and shall not give rise to or create any duty on the part of Daisytek International or any Daisytek Affiliate or their Board of Directors to waive or not waive any such condition.

2.9. Fractional Shares. As soon as practicable after the Distribution Date, Daisytek International shall direct the Daisytek Transfer Agent to determine the number of whole shares and fractional shares of PFSweb Common Stock allocable to each holder of record or beneficial owner of Daisytek Common Stock as of the Record Date, to aggregate all such fractional shares and sell the whole shares obtained thereby, at the direction of Daisytek International, to Daisytek International, PFSweb, in open market transactions or otherwise, in each case at then prevailing trading prices, and to cause to be distributed to each such holder or for the benefit of each such beneficial owner to which a fractional share shall be allocable such holder's or owner's ratable share of the proceeds of such sale, after making appropriate deductions of the amount required to be withheld for federal income tax purposes and after deducting an amount equal to all brokerage charges, commissions and transfer taxes attributed to such sale. Daisytek International and the Daisytek Transfer Agent may aggregate the shares of Daisytek

Common Stock that may be held by any beneficial owner thereof through more than one account in determining the fractional share allocable to such beneficial owner.

2.10. Replacement of Daisytek Options. As of the Distribution Date, each outstanding Daisytek Option held by a PFSweb Employee shall be replaced with a PFSweb Option having substantially the same terms and conditions as the Daisytek Option to be replaced thereby, including any and all vesting requirements and conditions of exercise; provided, however, that (i) the PFS Employee shall be credited, for vesting purposes, with the period of employment in which the PFS Employee was employed by Daisytek or a Daisytek Affiliate, (ii) the number of shares of PFSweb Common Stock subject to such PFSweb Options shall be equal to the number of shares of Daisytek Common Stock subject to the Daisytek Option multiplied by the Ratio and (iii) the per share exercise price of the PFSweb Common Stock subject to such PFSweb Option shall be equal to the per share exercise price of the Daisytek Common Stock subject to the Daisytek Option divided by the Ratio. PFSweb shall take all corporate action and make all required filings under applicable state Blue Sky laws and the Securities Act to register or qualify the PFSweb Options and/or the underlying shares of PFSweb Common Stock so that the shares of PFSweb Common Stock acquired upon exercise of each PFSweb Option are freely tradable under the Securities Act (except for shares acquired by affiliates (as defined in the Securities Act) of PFSweb) and each applicable state's Blue Sky laws.

2.11. Further Assurances Regarding the Distribution. In addition to the actions specifically provided for elsewhere in this Agreement, PFSweb shall, at Daisytek International's direction, use all commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things commercially reasonably necessary, proper or expeditious under applicable laws, regulations and agreements in order to consummate and make effective the Distribution as promptly as reasonably practicable. Without limiting the generality of the foregoing, PFSweb shall, at Daisytek International's direction, cooperate with Daisytek International, and execute and deliver, or use all commercially reasonable efforts to cause to have executed and delivered, all instruments, including instruments of conveyance, assignment and transfer, and to make all filings with, and to obtain all consents, approvals or authorizations of, any domestic or foreign governmental or regulatory authority requested by Daisytek International in order to consummate and make effective the Distribution.

2.12. Abandonment of the Distribution. In the event that Daisytek International so determines that one or more of the aforesaid conditions precedent has not been satisfied and that it no longer intends to proceed with or complete the Distribution, Daisytek International shall provide to PFSweb a written notification of such determination (an "Abandonment Notice"). Effective as of the date of the Abandonment Notice, (a) provided that no Distribution Date has yet occurred, Sections 4.2 and 4.3 of this Agreement shall terminate, become null and void and have no further force and effect and (b) Daisytek International's rights, and PFSweb's obligations, set forth in the Registration Rights Agreement shall immediately become effective.

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### 3. EXPENSES.

3.1. General. Except as otherwise provided in this Agreement, the Separation Agreement, any of the other Ancillary Agreements or any other agreement between the parties relating to the Contribution, the Initial Public Offering or the Distribution, all costs and expenses of either party hereto in connection with the Contribution, the Initial Public Offering and the Distribution shall be paid by the party that incurs such costs and expenses.

3.2. Expenses Relating to the Initial Public Offering. PFSweb shall be responsible for the payment of all costs, fees and expenses relating to the Initial Public Offering.

3.3. Expenses Relating To The Distribution. Daisytek shall be responsible for the payment of all costs, fees and expenses relating to the Distribution.

### 4. COVENANTS TO PRESERVE TAX-FREE STATUS OF THE DISTRIBUTION AND THE QUALIFICATION OF THE CONTRIBUTION AS A D REORGANIZATION.

PFSweb and Daisytek International hereby represent and warrant to, and covenant and agree with, each other as follows:

#### 4.1. Representations and Warranties.

(a) PFSweb hereby represents and warrants that (i) it has examined the Tax Opinions/Rulings and the Representation Letters, and (ii) the facts presented and the representations made therein, to the extent descriptive of PFSweb or the PFS Business (including, without limitation, the business purposes for the Distribution, the representations in the Representation Letters and Tax Opinions/Rulings to the extent that they relate to PFSweb or the PFS Business, and the plans, proposals, intentions and policies of PFSweb), are true, correct and complete in all material respects.

(b) Daisytek International hereby represents and warrants that (i) it has examined the Tax Opinions/Rulings and the Representation Letters, and (ii) the facts presented and the representations made therein, to the extent descriptive of Daisytek or the Daisytek Business (including, without limitation, the business purposes for the Distribution, the

representations in the Representation Letters and Tax Opinions/Rulings to the extent that they relate to Daisytek or the Daisytek Business, and the plans, proposals, intentions and policies of Daisytek), are true, correct and complete in all material respects.

#### 4.2. Restrictions on PFSweb.

(a) PFSweb shall not take any action (such action to include, if relevant, the issuance of PFSweb Capital Stock upon the exercise by the holders thereof of all options or convertible securities issued by PFSweb) during the Pre-Distribution Period if, as a

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result of taking such action, PFSweb would issue a number of shares of PFSweb Capital Stock (including by way of the exercise of stock options or the issuance of restricted stock) that would cause Daisytek to cease to have Tax Control of PFSweb, unless prior to the consummation of such transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such transaction would not jeopardize the Tax-Free Status of the Distribution. Notwithstanding the foregoing provisions of this Section 4.2(a), PFSweb shall be permitted to issue stock options and restricted stock awards to its employees so long as such options or restricted stock awards will not be exercisable or vest, by their terms, prior to the Distribution Date. All of the restrictions on PFSweb contained in this Section 4.2 shall apply to PFSweb during the Pre-Distribution Period as well as the other periods specified in this Section 4.2.

(b) Until the first day after the two-year anniversary of the latest Distribution Date, PFSweb shall not enter into any Proposed Acquisition Transaction or, to the extent PFSweb has the right to prohibit any Proposed Acquisition Transaction, permit any Proposed Acquisition Transaction to occur unless prior to the consummation of such Proposed Acquisition Transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such Proposed Acquisition Transaction would not jeopardize the Tax-Free Status of the Distribution. The foregoing shall not prohibit PFSweb from entering into a contract or agreement to consummate any Proposed Acquisition Transaction if such contract or agreement requires satisfaction of the above-described requirement prior to the consummation of such Proposed Acquisition Transaction, such requirement to be satisfied through the cooperation of the parties as described in Section 4.3(b)(ii).

(c) Until the first day after the two-year anniversary of the latest Distribution Date, (i) PFSweb shall continue to conduct the Active Trade or Business, (ii) subject to clause (iii) below, PFSweb shall not (A) liquidate, dispose of, or otherwise discontinue the conduct of any substantial portion of the Active Trade or Business or (B) dispose of any business or assets that would cause PFSweb to be operated in a manner inconsistent in any material respect with the business purposes for the Distribution as set forth in the Representation Letters and Tax Opinions/Rulings, in each case unless Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such liquidation, disposition, or discontinuance would not jeopardize the Tax-Free Status of the Distribution, (iii) PFSweb shall not under any circumstances liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business if such liquidation, disposition or discontinuance would breach Section 4.2(d). PFSweb shall continue the active conduct of the Active Trade or Business primarily through officers and employees of PFSweb or its Subsidiaries (and not primarily through independent contractors). Notwithstanding the foregoing, (A) except with respect to any corporation or other entity the status of which as the direct owner of an active trade or business is material to the Tax-Free Status of the Distribution, liquidations of any of PFSweb's Subsidiaries

(including PFS - Texas LLC) into PFSweb or one or more Subsidiaries directly or indirectly controlled by PFSweb shall not be deemed to breach this Section 4.2(c) and (B) PFSweb shall not be prohibited from liquidating, disposing of or otherwise discontinuing the conduct of one or more trades or businesses that

## INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

dated as of December 7, 1999

by and among

DAISYTEK INTERNATIONAL CORPORATION,

DAISYTEK, INCORPORATED

and

PFSWEB, INC.

## INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

This INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT (the "Agreement") is made and entered into as of December 7, 1999, by and among Daisytek International Corporation, a Delaware corporation ("Daisytek International"), Daisytek, Incorporated, a Delaware corporation and a wholly-owned subsidiary of Daisytek International ("Daisytek"), and PFSweb, Inc., a Delaware corporation and a wholly-owned subsidiary of Daisytek ("PFSweb"). Certain capitalized terms used herein are defined in Section 1 of this Agreement.

## RECITALS

WHEREAS, the Boards of Directors of Daisytek International and Daisytek have determined that it would be appropriate and desirable to completely separate the PFS Business from Daisytek;

WHEREAS, Daisytek has caused PFSweb to be incorporated in order to effect such separation;

WHEREAS, Daisytek and PFSweb are parties to the Separation Agreement pursuant to which Daisytek will contribute and transfer to PFSweb, and PFSweb will receive and assume, the assets and liabilities then associated with the PFS Business as described therein;

WHEREAS, Daisytek and PFSweb intend that the Contribution, together with the Distribution, qualify as a tax-free reorganization under Section 368(a)(1)(D) of the Code;

WHEREAS, Daisytek currently owns all of the issued and outstanding PFSweb Common Stock;

WHEREAS, the parties currently contemplate that PFSweb shall consummate the Initial Public Offering;

WHEREAS, immediately following the consummation of the Initial Public Offering, Daisytek shall own not less than 80% of the outstanding shares of PFSweb Common Stock;

WHEREAS, Daisytek plans to divest itself of its entire ownership of PFSweb by distributing all of its shares of PFSweb Common Stock to Daisytek International, which, in turn, will distribute in the Distribution all of such shares of PFSweb Common Stock to the holders of Daisytek Common Stock;

WHEREAS, Daisytek International, Daisytek and PFSweb intend that the Distribution will be tax-free to Daisytek, Daisytek International and its stockholders under Sections 355 and 368(a)(1)(D) of the Code;

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WHEREAS, the parties intend in this Agreement to set forth the principal arrangements between them regarding the Initial Public Offering and the Distribution; and

WHEREAS, the parties hereto have determined that in order to accomplish the objectives of the Initial Public Offering and the Distribution and to facilitate the consummation thereof, it is necessary and desirable to enter into the agreements and understandings set forth herein;

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereby agree as follows:

1. DEFINITIONS.

"Active Trade or Business" means the active conduct of the trade or business (as defined in Section 355(b)(2) of the Code) conducted by PFSweb immediately prior to the Distribution Date.

"Affiliate" means a PFSweb Affiliate or a Daisytek Affiliate, as the case may be.

"Ancillary Agreements" has the meaning ascribed to such term in the Separation Agreement.

"Annual Financial Statements" has the meaning set forth in Section 5.1 (a) (vi).

"Business Day" means any day other than a Saturday, a Sunday, or a day on which banking institutions located in the State of New York are authorized or obligated by law or executive order to close.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, together with the rules and regulations promulgated thereunder.

"Consent" means any consent of, waiver or approval from, or notification to, any Person.

"Contribution" means the transfer of certain assets by Daisytek to PFSweb (and the assumption by PFSweb of certain liabilities) as contemplated by the Separation Agreement.

"Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

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"CPR Rules" means the Rules for Non-Administered Arbitration of Business Disputes promulgated by the Center for Public Resources, as in effect on the date hereof.

"D Reorganization" means a transaction qualifying as a reorganization under Section 368(a)(1)(D) of the Code.

"Daisytek Affiliate" means a Person, other than PFSweb or a PFSweb Affiliate, that, after giving effect to the Distribution, directly or indirectly through one or more intermediaries, is Controlled by Daisytek International.

"Daisytek Annual Statements" has the meaning set forth in Section 5.1(b)(ii).

"Daisytek's Auditors" has the meaning set forth in Section 5.1(b)(ii).

"Daisytek Business" means any business or operations of Daisytek or any Daisytek Affiliates other than the PFS Business.

"Daisytek Common Stock" means the Common Stock, par value \$.01 per share, of Daisytek International.

"Daisytek Disclosure Portions" means all material set forth in, or incorporated by reference into, either the IPO Registration Statement or the Distribution Registration Statement, as applicable, to the extent relating exclusively to (i) Daisytek and the Daisytek Affiliates (excluding PFSweb and the PFSweb Affiliates), (ii) the Daisytek Business, (iii) Daisytek's intentions with respect to the Distribution or (iv) the terms of the Distribution, including, without limitation, the form, structure and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing of and conditions to the consummation of the Distribution.

"Daisytek Option" means an option to purchase shares of Daisytek Common Stock issued under any stock option plan of Daisytek International.

"Daisytek Public Filings" has the meaning set forth in Section 5.1(a)(xiii).

"Daisytek Transfer Agent" means ChaseMellon Shareholder Services LLC, in its capacity as the transfer agent and registrar for the Daisytek Common Stock.

"Dispute Notice" means written notice of any dispute between Daisytek and PFSweb arising out of or relating to this Agreement, which shall set forth, in reasonable detail, the nature of the dispute.

"Distribution" means the distribution of PFSweb Common Stock by Daisytek to Daisytek International and thereafter by Daisytek International in one or more transactions occurring after the Initial Public Offering that collectively have the effect that all shares of PFSweb Common Stock held by Daisytek are distributed to Daisytek International stockholders, whenever such transaction(s) shall occur.

"Distribution Date" means any date or dates, as the case may be, determined by Daisytek, in its sole and absolute discretion, to be a date on which shares of PFSweb Common Stock held by Daisytek are distributed in connection with the Distribution.

"Distribution Registration Statement" means any and all registration statements, information statements or other documents, if any, filed by any party with the SEC in connection with any transaction constituting part of the Distribution, in each case as supplemented or amended from time to time.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, together with the rules and regulations promulgated thereunder.

"GAAP" means generally accepted accounting principles,

consistently applied.

"Indemnifying Party" means a Person that is obligated to provide indemnification under this Agreement.

"Indemnitee" means a Person that is entitled to seek indemnification under this Agreement.

"Indemnity Payment" means an amount that an Indemnifying Party is required to pay to an Indemnitee under this Agreement.

"Initial Public Offering" or "IPO" means the initial public offering by PFSweb of shares of PFSweb Common Stock as contemplated by the IPO Registration Statement.

"Insurance Proceeds" means the payment received by an insured from an insurance carrier or paid by an insurance carrier on behalf of the insured, net of any applicable premium adjustment and tax effect.

"IPO Registration Statement" means the Registration Statement on Form S-1, Registration No. 333-87657, of PFSweb, as supplemented and amended from time to time.

"IRS" means Internal Revenue Service of the U.S. Department of Treasury or any successor agency.

"Losses" means all losses, liabilities, claims, obligations, demands, judgments, damages, dues, penalties, assessments, fines (civil or criminal), costs, liens, expenses, forfeitures, settlements, or fees, reasonable attorneys' fees and court costs, of any nature or kind, whether or not the same would properly be reflected on a balance sheet, and "Loss" means any of these.

"Negotiation Period" means the period of 20 Business Days following the initial meeting of the representatives of Daisytek and PFSweb following the receipt of a Dispute Notice.

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"Notice" means any notice, request, claim, demand, or other communication under this Agreement.

"Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

"PFS Business" has the meaning ascribed to such term in the Separation Agreement.

"PFSweb Affiliate" means a Person, other than Daisytek International or a Daisytek Affiliate, that, after giving effect to the Distribution, directly or indirectly through one or more intermediaries, is Controlled by, or is under common Control with PFSweb.

"PFSweb Capital Stock" means all classes or series of capital stock of PFSweb.

"PFSweb Common Stock" means the Common Stock of PFSweb.

"PFSweb Employee" means an individual employed by Daisytek or any Daisytek Affiliate who becomes employed by PFSweb or any PFS Affiliate in connection with the Distribution.

"PFSweb Option" means an option to purchase shares of PFSweb Common Stock issued under a stock option plan of PFSweb.

"PFSweb Public Documents" has the meaning set forth in



Section 5.1(a)(ix).

"PFSweb Transfer Agent" means ChaseMellon Shareholder Services LLC, in its capacity as the transfer agent and registrar for the PFSweb Common Stock.

"PFSweb's Auditors" has the meaning set forth in Section 5.1(b)(i).

"Pre-Distribution Period" means the period of time from the date hereof until the completion of the Distribution.

"Proposed Acquisition Transaction" means a transaction or series of transactions as a result of which any Person or any group of related Persons would (directly or indirectly) acquire, or have the right to acquire, from PFSweb or one or more holders of outstanding shares of PFSweb Capital Stock, a number of shares of PFSweb Capital Stock that would comprise 50% or more of (i) the value of all outstanding shares of PFSweb Capital Stock as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (ii) the total combined voting power of all outstanding shares of Voting Stock of PFSweb as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series.

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"Quarterly Financial Statements" has the meaning set forth in Section 5.1(a)(v).

"Ratio" means the amount determined by dividing (i) the average of the daily high and low per share prices of the Daisytek Common Stock, as reported in The Wall Street Journal, during the three trading days ending on the Record Date, by (ii) the average of the daily high and low per share prices of the PFSweb Common Stock, as reported in The Wall Street Journal, for the three trading days commencing on the first trading day following the Record Date.

"Record Date" means the close of business on the date(s) to be determined by the Board of Directors of Daisytek International as the record date(s) for determining stockholders of Daisytek International entitled to receive shares of PFSweb Common Stock in the Distribution.

"Regulation S-K" means Regulation S-K of the General Rules and Regulations promulgated by the SEC.

"Regulation S-X" means Regulation S-X of the General Rules and Regulations promulgated by the SEC.

"Representation Date" means any date on which PFSweb makes any representation (i) to the IRS or to counsel selected by Daisytek for the purpose of obtaining a Subsequent Tax Opinion/Ruling, or (ii) to Daisytek for the purpose of any determination required to be made by Daisytek pursuant to Section 4.2.

"Representation Letters" means any representation letters and any other materials (including, without limitation, the ruling request and the related supplemental submissions to the IRS) delivered or deliverable by Daisytek and others in connection with the rendering by Tax Advisor and/or the issuance by the IRS of the Tax Opinions/Rulings, which to the extent related to PFSweb shall be in form and substance reasonably satisfactory to PFSweb.

"Representative" means, with respect to any Person, any of such Person's directors, officers, employees, agents, consultants, advisors, accountants or attorneys.

"Request" has the meaning set forth in Section 6.7.

"SEC" means the United States Securities and Exchange Commission or any successor agency.

"Securities Act" means the Securities Act of 1933, as amended

from time to time, together with the rules and regulations promulgated thereunder.

"Separation Agreement" means the Master Separation Agreement by and among Daisytek International, Daisytek, Priority Fulfillment Services, Inc. and PFSweb, as amended from time to time.

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"Subsequent Tax Opinion/Ruling" means either (i) any opinion of Tax Advisor selected by Daisytek, in its sole and absolute discretion, confirming, in form and substance reasonably satisfactory to Daisytek, that, as a consequence of the consummation of a subsequent transaction, no income, gain or loss for U.S. federal income tax purposes will be recognized by Daisytek, Daisytek International, the stockholders or former stockholders of Daisytek International, or any Daisytek Affiliate with respect to the Distribution, or (ii) an IRS private letter ruling to the same effect.

"Subsidiary" means with respect to any specified Person, any corporation or other legal entity of which such Person or any of its Subsidiaries Controls or owns, directly or indirectly, more than 50% of the stock or other equity interest entitled to vote with respect to the election of members to the board of directors or similar governing body; provided, however, that for the purposes of this Agreement, neither PFSweb nor any of the Subsidiaries of PFSweb shall be deemed to be Subsidiaries of Daisytek or of any of the Subsidiaries of Daisytek.

"Tax" means (i) any income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Section 59A of the Code), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on, minimum, estimated, or other tax, assessment, or governmental charge of any kind whatsoever imposed by any governmental authority, including any interest, penalty, or addition thereto, whether disputed or not; (ii) any liability for the payment of any amounts of the type described in clause (i) above arising as a result of being (or having been) a member of any group or being (or having been) included or required to be included in any Tax Return related thereto; and (iii) any liability for the payment of any amounts of the type described in clause (i) above as a result of any express or implied obligation to indemnify or otherwise assume or succeed to the liability of any other Person.

"Tax Advisor" means the professional accounting or law firm designated by Daisytek as its Tax Advisor.

"Tax Agreement" means the Tax Sharing Agreement between Daisytek and PFSweb, as amended from time to time.

"Tax Control" means, with respect to PFSweb, ownership of PFSweb Capital Stock which constitutes at least 80% of both (i) the total combined voting power of all outstanding shares of Voting Stock of PFSweb and (ii) each class and series of PFSweb Capital Stock other than Voting Stock of PFSweb.

"Tax-Free Status of the Distribution" means the nonrecognition of taxable gain or loss for U.S. federal income tax purposes to Daisytek International, Daisytek, Daisytek Affiliates and Daisytek International's stockholders in connection with the Distribution.

"Tax Opinions/Rulings" means any opinions of Tax Advisor and/or the rulings by the IRS deliverable to Daisytek in connection with the Contribution and the Distribution.

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"Tax-Related Losses" means (i) all federal, state and local Taxes (including interest and penalties thereon) imposed pursuant to any settlement, final determination, judgment or otherwise; (ii) all accounting, legal and other professional fees, and court costs incurred in connection with such taxes; and (iii) all costs and expenses that may result from adverse tax consequences to Daisytek, Daisytek International or its stockholders (including all costs, expenses and damages associated with stockholder litigation or controversies) payable by Daisytek or Daisytek Affiliates.

"Third-Party Claim" means any claim, suit, arbitration, inquiry, proceeding or investigation by or before any court, governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person other than Daisytek or any Daisytek Affiliate or PFSweb or any PFSweb Affiliate which gives rise to a right of indemnification hereunder.

"Underwriters" means the managing underwriters for the IPO.

"Underwriting Agreement" means the Underwriting Agreement between PFSweb and the Underwriters relating to the Initial Public Offering, as amended from time to time.

"Value" means with respect to any trade or business (or portion thereof), the fair market value of the assets constituting such trade or business, less the current liabilities associated with such trade or business, in each case determined as of the Distribution Date.

"Voting Stock" means with respect to any Person, all classes and series of the capital stock of such Person entitled to vote generally in the election of directors.

## 2. THE INITIAL PUBLIC OFFERING AND THE DISTRIBUTION.

2.1. Transactions Prior To The IPO. Subject to the conditions hereof, Daisytek International and PFSweb shall use their reasonable best efforts to consummate the IPO. Such actions shall include those specified in this Section 2.1.

(a) PFSweb shall file the IPO Registration Statement, and such amendments or supplements thereto, as may be necessary in order to cause the same to become and remain effective as required by law or by the Underwriters, including, but not limited to, filing such amendments to the IPO Registration Statement as may be required by the Underwriting Agreement, the SEC or federal, state or foreign securities laws. Daisytek International and PFSweb shall also cooperate in preparing, filing with the SEC and causing to become effective a registration statement registering the PFSweb Common Stock under the Exchange Act, and any registration statements or amendments thereof which are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the IPO, the Distribution or the other transactions contemplated by this Agreement and the Ancillary Agreements.

(b) PFSweb and Daisytek International shall enter into the Underwriting Agreement, in form and substance reasonably satisfactory to them and each shall comply with its respective obligations thereunder.

(c) Daisytek International and PFSweb shall consult with each other and the Underwriters regarding the timing, pricing and other material matters with respect to the IPO.

(d) PFSweb shall use its reasonable best efforts to take all such action as may be necessary or appropriate under state securities and blue sky laws of the United States (and any comparable laws under any

foreign jurisdictions) in connection with the IPO.

(e) PFSweb shall prepare, file and use reasonable best efforts to seek to make effective, an application for listing of the PFSweb Common Stock issued in the IPO on the NASDAQ National Market, subject to official notice of issuance.

(f) PFSweb shall participate in the preparation of materials and presentations as the Underwriters shall deem necessary or desirable.

2.2. Proceeds of the IPO. The IPO will be a primary offering of PFSweb Common Stock and the net proceeds of the IPO will be retained by PFSweb, subject to the payments to be made under the Separation Agreement.

2.3. Conditions Precedent to Consummation of the IPO. The obligations of the parties to consummate the IPO shall be conditioned on such conditions as Daisytek International shall determine in its sole and absolute discretion, which conditions, or any of them, may be waived by Daisytek International in its sole and absolute discretion, including without limitation, the following conditions, which shall be for the sole benefit of Daisytek International and shall not give rise to or create any duty on the part of Daisytek International or any Daisytek Affiliate or their Board of Directors to waive or not waive any such condition:

(a) The IPO Registration Statement shall have been filed and declared effective by the SEC, and there shall be no stop order in effect with respect thereto.

(b) The actions and filings with regard to state securities and blue sky laws of the United States (and any comparable laws under any foreign jurisdictions) described in Section 2.1 shall have been taken and, where applicable, have become effective or been accepted.

(c) The PFSweb Common Stock to be issued in the IPO shall have been accepted for listing on the NASDAQ National Market, on official notice of issuance.

(d) PFSweb shall have entered into the Underwriting Agreement and all conditions to the obligations of PFSweb and the Underwriters shall have been satisfied or waived.

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(e) Daisytek International shall be satisfied in its sole discretion that Daisytek will own at least 80% of the voting rights attached to the then outstanding PFSweb Common Stock immediately following the IPO, and, to the extent deemed necessary or desirable by Daisytek International in its sole discretion, all other matters regarding the Tax-Free Status of the Distribution shall, to the extent applicable as of the time of the IPO, be satisfied or can reasonably be anticipated to be satisfied and there shall be no event or condition that is likely to cause any of such conditions not to be satisfied as of the time of the Distribution or thereafter.

(f) No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the IPO or any of the other transactions contemplated by this Agreement or any Ancillary Agreement shall be in effect.

(g) Such other actions as the parties hereto may, based upon the advice of counsel, reasonably request to be taken prior to the IPO in order to assure the successful completion of the IPO and the other transactions contemplated by this Agreement shall have been taken.

2.4. The Distribution. Daisytek and Daisytek International, as soon as practicable after the satisfaction of applicable conditions, and not later than 12 months following the consummation of the Initial Public Offering, to complete the Distribution. PFSweb shall cooperate with Daisytek in all respects to accomplish the Distribution and shall, at Daisytek

International's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including, without limitation, to the extent necessary under then applicable law, the registration under the Securities Act of PFSweb Common Stock on an appropriate registration form or forms to be designated by Daisytek International. Daisytek International shall select any investment banker(s) and manager(s) in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and outside counsel for Daisytek International; provided that nothing herein shall prohibit PFSweb from engaging (at its own expense) its own financial, legal, accounting and other advisors in connection with the Distribution.

2.5. Certain Stockholder Matters. From and after the distribution of PFSweb Common Stock in connection with any transaction(s) included as part of the Distribution and until such PFSweb Common Stock is duly transferred in accordance with applicable law, PFSweb shall regard the Persons receiving PFSweb Common Stock in such transaction(s) as record holders of PFSweb Common Stock in accordance with the terms of such transaction(s) without requiring any action on the part of such Persons. PFSweb agrees that, subject to any transfers of such stock, (a) each such holder shall be entitled to receive all dividends payable on, and exercise voting rights and all other rights and privileges with respect to, the shares of PFSweb Common Stock then held by such holder and (b) each such holder shall be entitled, without any action on the part of such holder, to receive one or more certificates representing, or other evidence of ownership of, the shares of PFSweb Common Stock then held by such holder. Daisytek International and Daisytek shall cooperate, and shall instruct the Daisytek Transfer Agent to cooperate, with PFSweb and the PFSweb Transfer Agent, and PFSweb shall cooperate, and shall instruct the PFSweb Transfer Agent to cooperate, with Daisytek International, Daisytek and the

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Daisytek Transfer Agent, in connection with all aspects of the Distribution and all other matters relating to the issuance and delivery of certificates representing, or other evidence of ownership of, the shares of PFSweb Common Stock distributed to the holders of Daisytek Common Stock in connection with any transaction(s) included as part of the Distribution. Following the Distribution, Daisytek International shall instruct the Daisytek Transfer Agent to deliver to the PFSweb Transfer Agent true, correct and complete copies of the stock and transfer records reflecting the holders of Daisytek Common Stock receiving shares of PFSweb Common Stock in connection with any transaction(s) included as part of the Distribution.

2.6. Means of Distribution. (a) Subject to Section 2.4 hereof, on or prior to the Distribution Date, Daisytek will distribute and deliver to Daisytek International who, in turn, will deliver to the Daisytek Transfer Agent for the benefit of holders of record of Daisytek Common Stock on the Record Date, a single stock certificate, endorsed in blank, representing all of the outstanding shares of PFSweb Common Stock then owned by it, which certificate shall be reissued in sufficient manner so that the Daisytek Transfer Agent may, and shall be instructed to, distribute on the Distribution Date the appropriate number of such shares of PFSweb Common Stock to each such holder of record of Daisytek Common Stock on the Record Date or designated transferee or transferees of such holder.

(b) Subject to Section 2.4, each holder of Daisytek Common Stock on the Record Date (or such holder's designated transferee or transferees) will be entitled to receive in the Distribution a number of shares of PFSweb Common Stock equal to the number of shares of Daisytek Common Stock held by such holder on the Record Date multiplied by a fraction, the numerator of which is the number of shares of PFSweb Common Stock beneficially owned by Daisytek International on the Record Date and the denominator of which is the number of shares of Daisytek Common Stock issued and outstanding on the Record Date.

2.7. Actions Prior to the Distribution. (a) Daisytek International and PFSweb shall prepare and mail, prior to the Distribution Date, to the holders of Daisytek Common Stock, such information concerning

PFSweb, its business, operations and management, the Distribution and such other matters as Daisytek International shall reasonably determine and as may be required by law. Daisytek International and PFSweb will prepare, and PFSweb will, to the extent required under applicable law, file with the SEC any such documentation which Daisytek International determines are necessary or desirable to effectuate the Distribution, and Daisytek International and PFSweb shall each use its reasonable best efforts to obtain all necessary approvals from the SEC with respect thereto as soon as practicable.

(b) Daisytek International and PFSweb shall take all such action as may be necessary or appropriate under the securities or blue sky laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Distribution.

(c) PFSweb shall prepare and file, and shall use its reasonable best efforts to have approved, an application for the listing on the NASDAQ National Market, subject to official notice of distribution of the PFSweb Common Stock to be distributed in the

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Distribution, and the shares of PFSweb Common Stock covered by PFSweb Options to be granted under Section 3.6 below.

2.8. Conditions To Distribution. The consummation of the Distribution is subject to the following conditions, which conditions, or any of them, may be waived by Daisytek in its sole and absolute discretion:

(a) The receipt by Daisytek International of either, at its option and in its sole and absolute discretion (i) a ruling by the IRS that, among certain other Tax consequences of the transaction, the Contribution and Distribution will qualify as tax-free for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek, Daisytek International or the holders of Daisytek Common Stock or (ii) an opinion from its Tax Advisor regarding the Tax-Free Status of the Distribution and such other matters, in form and substance satisfactory to it, as it shall determine to be necessary or advisable in its sole and absolute discretion;

(b) The receipt of any material Consents necessary to consummate the Distribution, which Consents shall be in full force and effect;

(c) No order, injunction, decree or regulation issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution shall be in effect; and

(d) No events or developments shall have occurred subsequent to the IPO Closing Date that, in the sole judgment of Daisytek, would result in the Distribution having a material adverse effect on Daisytek, any Daisytek Affiliate any holder of Daisytek Common Stock, PFSweb, any PFSweb Affiliate or any holder of PFSweb Common Stock.

The foregoing conditions are for the sole benefit of Daisytek International and shall not give rise to or create any duty on the part of Daisytek International or any Daisytek Affiliate or their Board of Directors to waive or not waive any such condition.

2.9. Fractional Shares. As soon as practicable after the Distribution Date, Daisytek International shall direct the Daisytek Transfer Agent to determine the number of whole shares and fractional shares of PFSweb Common Stock allocable to each holder of record or beneficial owner of Daisytek Common Stock as of the Record Date, to aggregate all such fractional shares and sell the whole shares obtained thereby, at the direction of Daisytek International, to Daisytek International, PFSweb, in open market transactions or otherwise, in each case at then prevailing trading prices, and to cause to be distributed to each such holder or for the benefit of each such beneficial owner to which a fractional share shall be allocable such holder's or owner's ratable share of the proceeds of such sale, after making appropriate deductions

of the amount required to be withheld for federal income tax purposes and after deducting an amount equal to all brokerage charges, commissions and transfer taxes attributed to such sale. Daisytek International and the Daisytek Transfer Agent may aggregate the shares of Daisytek

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Common Stock that may be held by any beneficial owner thereof through more than one account in determining the fractional share allocable to such beneficial owner.

2.10. Replacement of Daisytek Options. As of the Distribution Date, each outstanding Daisytek Option held by a PFSweb Employee shall be replaced with a PFSweb Option having substantially the same terms and conditions as the Daisytek Option to be replaced thereby, including any and all vesting requirements and conditions of exercise; provided, however, that (i) the PFS Employee shall be credited, for vesting purposes, with the period of employment in which the PFS Employee was employed by Daisytek or a Daisytek Affiliate, (ii) the number of shares of PFSweb Common Stock subject to such PFSweb Options shall be equal to the number of shares of Daisytek Common Stock subject to the Daisytek Option multiplied by the Ratio and (iii) the per share exercise price of the PFSweb Common Stock subject to such PFSweb Option shall be equal to the per share exercise price of the Daisytek Common Stock subject to the Daisytek Option divided by the Ratio. PFSweb shall take all corporate action and make all required filings under applicable state Blue Sky laws and the Securities Act to register or qualify the PFSweb Options and/or the underlying shares of PFSweb Common Stock so that the shares of PFSweb Common Stock acquired upon exercise of each PFSweb Option are freely tradable under the Securities Act (except for shares acquired by affiliates (as defined in the Securities Act) of PFSweb) and each applicable state's Blue Sky laws.

2.11. Further Assurances Regarding the Distribution. In addition to the actions specifically provided for elsewhere in this Agreement, PFSweb shall, at Daisytek International's direction, use all commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things commercially reasonably necessary, proper or expeditious under applicable laws, regulations and agreements in order to consummate and make effective the Distribution as promptly as reasonably practicable. Without limiting the generality of the foregoing, PFSweb shall, at Daisytek International's direction, cooperate with Daisytek International, and execute and deliver, or use all commercially reasonable efforts to cause to have executed and delivered, all instruments, including instruments of conveyance, assignment and transfer, and to make all filings with, and to obtain all consents, approvals or authorizations of, any domestic or foreign governmental or regulatory authority requested by Daisytek International in order to consummate and make effective the Distribution.

2.12. Abandonment of the Distribution. In the event that Daisytek International so determines that one or more of the aforesaid conditions precedent has not been satisfied and that it no longer intends to proceed with or complete the Distribution, Daisytek International shall provide to PFSweb a written notification of such determination (an "Abandonment Notice"). Effective as of the date of the Abandonment Notice, (a) provided that no Distribution Date has yet occurred, Sections 4.2 and 4.3 of this Agreement shall terminate, become null and void and have no further force and effect and (b) Daisytek International's rights, and PFSweb's obligations, set forth in the Registration Rights Agreement shall immediately become effective.

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### 3. EXPENSES.

3.1. General. Except as otherwise provided in this Agreement, the Separation Agreement, any of the other Ancillary Agreements or any other agreement between the parties relating to the Contribution, the

Initial Public Offering or the Distribution, all costs and expenses of either party hereto in connection with the Contribution, the Initial Public Offering and the Distribution shall be paid by the party that incurs such costs and expenses.

3.2. Expenses Relating to the Initial Public Offering. PFSweb shall be responsible for the payment of all costs, fees and expenses relating to the Initial Public Offering.

3.3. Expenses Relating To The Distribution. Daisytek shall be responsible for the payment of all costs, fees and expenses relating to the Distribution.

4. COVENANTS TO PRESERVE TAX-FREE STATUS OF THE DISTRIBUTION AND THE QUALIFICATION OF THE CONTRIBUTION AS A D REORGANIZATION.

PFSweb and Daisytek International hereby represent and warrant to, and covenant and agree with, each other as follows:

4.1. Representations and Warranties.

(a) PFSweb hereby represents and warrants that (i) it has examined the Tax Opinions/Rulings and the Representation Letters, and (ii) the facts presented and the representations made therein, to the extent descriptive of PFSweb or the PFS Business (including, without limitation, the business purposes for the Distribution, the representations in the Representation Letters and Tax Opinions/Rulings to the extent that they relate to PFSweb or the PFS Business, and the plans, proposals, intentions and policies of PFSweb), are true, correct and complete in all material respects.

(b) Daisytek International hereby represents and warrants that (i) it has examined the Tax Opinions/Rulings and the Representation Letters, and (ii) the facts presented and the representations made therein, to the extent descriptive of Daisytek or the Daisytek Business (including, without limitation, the business purposes for the Distribution, the representations in the Representation Letters and Tax Opinions/Rulings to the extent that they relate to Daisytek or the Daisytek Business, and the plans, proposals, intentions and policies of Daisytek), are true, correct and complete in all material respects.

4.2. Restrictions on PFSweb.

(a) PFSweb shall not take any action (such action to include, if relevant, the issuance of PFSweb Capital Stock upon the exercise by the holders thereof of all options or convertible securities issued by PFSweb) during the Pre-Distribution Period if, as a

result of taking such action, PFSweb would issue a number of shares of PFSweb Capital Stock (including by way of the exercise of stock options or the issuance of restricted stock) that would cause Daisytek to cease to have Tax Control of PFSweb, unless prior to the consummation of such transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such transaction would not jeopardize the Tax-Free Status of the Distribution. Notwithstanding the foregoing provisions of this Section 4.2(a), PFSweb shall be permitted to issue stock options and restricted stock awards to its employees so long as such options or restricted stock awards will not be exercisable or vest, by their terms, prior to the Distribution Date. All of the restrictions on PFSweb contained in this Section 4.2 shall apply to PFSweb during the Pre-Distribution Period as well as the other periods specified in this Section 4.2.

(b) Until the first day after the two-year anniversary of the latest Distribution Date, PFSweb shall not enter into any



Proposed Acquisition Transaction or, to the extent PFSweb has the right to prohibit any Proposed Acquisition Transaction, permit any Proposed Acquisition Transaction to occur unless prior to the consummation of such Proposed Acquisition Transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such Proposed Acquisition Transaction would not jeopardize the Tax-Free Status of the Distribution. The foregoing shall not prohibit PFSweb from entering into a contract or agreement to consummate any Proposed Acquisition Transaction if such contract or agreement requires satisfaction of the above-described requirement prior to the consummation of such Proposed Acquisition Transaction, such requirement to be satisfied through the cooperation of the parties as described in Section 4.3(b) (ii).

(c) Until the first day after the two-year anniversary of the latest Distribution Date, (i) PFSweb shall continue to conduct the Active Trade or Business, (ii) subject to clause (iii) below, PFSweb shall not (A) liquidate, dispose of, or otherwise discontinue the conduct of any substantial portion of the Active Trade or Business or (B) dispose of any business or assets that would cause PFSweb to be operated in a manner inconsistent in any material respect with the business purposes for the Distribution as set forth in the Representation Letters and Tax Opinions/Rulings, in each case unless Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such liquidation, disposition, or discontinuance would not jeopardize the Tax-Free Status of the Distribution, (iii) PFSweb shall not under any circumstances liquidate, dispose of, or otherwise discontinue the conduct of any portion of the Active Trade or Business if such liquidation, disposition or discontinuance would breach Section 4.2(d). PFSweb shall continue the active conduct of the Active Trade or Business primarily through officers and employees of PFSweb or its Subsidiaries (and not primarily through independent contractors). Notwithstanding the foregoing, (A) except with respect to any corporation or other entity the status of which as the direct owner of an active trade or business is material to the Tax-Free Status of the Distribution, liquidations of any of PFSweb's Subsidiaries (including PFS - Texas LLC) into PFSweb or one or more Subsidiaries directly or indirectly controlled by PFSweb shall not be deemed to breach this Section 4.2(c) and (B) PFSweb shall not be prohibited from liquidating, disposing of or otherwise discontinuing the conduct of one or more trades or businesses that

constituted an immaterial part of the Active Trade or Business, or any portion thereof. For purposes of the preceding sentence and clause (c) (ii) above, asset retirements, sale-leaseback arrangements and discontinuances of product lines within a trade or business the active conduct of which is continued shall not be deemed a liquidation, disposition or discontinuance of a trade or business or portion thereof, and (iv) solely for purposes of this Section 4.2(c), PFSweb shall not be treated as directly or indirectly controlling a Subsidiary unless PFSweb owns, directly or indirectly, shares of capital stock of such Subsidiary constituting (A) 80% or more of the total combined voting power of all outstanding shares of Voting Stock of such Subsidiary and (B) 80% or more of the total number of outstanding shares of each class or series of capital stock of such Subsidiary other than Voting Stock.

(d) Until the first day after the two-year anniversary of the latest Distribution Date, (A) PFSweb shall not voluntarily dissolve or liquidate, and (B) except in the ordinary course of business, neither PFSweb nor any Subsidiaries directly or indirectly controlled by PFSweb shall sell, transfer, or otherwise dispose of or agree to dispose of assets (including, for such purpose, any shares of capital stock of such Subsidiaries) that, in the aggregate, constitute more than (x) 60% of the gross assets of PFSweb or (y) 60% of the consolidated gross assets of PFSweb (including PFS - Texas LLC) and such Subsidiaries, unless prior to the consummation of such transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such transaction would not jeopardize the Tax-Free Status of the Distribution. The amount of gross assets of PFSweb and

such Subsidiaries shall be based on the fair market value of each such asset as of the applicable Distribution Date. Sales, transfers or other dispositions by PFSweb or any of its Subsidiaries to PFSweb or one or more Subsidiaries directly or indirectly controlled by PFSweb shall not be included in any determinations under this Section 4.2(d) of whether such 60% or more of the gross assets of PFSweb or 60% of the consolidated gross assets of PFSweb and such Subsidiaries have been sold, transferred or otherwise disposed of. Solely for purposes of this Section 4.2(d), PFSweb shall not be treated as directly or indirectly controlling a Subsidiary unless PFSweb owns, directly or indirectly, shares of capital stock of such Subsidiary constituting (A) 80% or more of the total combined voting power of all outstanding shares of Voting Stock of such Subsidiary and (B) 80% or more of the total number of outstanding shares of each class or series of capital stock of such Subsidiary other than Voting Stock.

(e) Prior to the first Distribution Date, PFSweb shall fully discharge and satisfy all of the then existing indebtedness owed by it or its Subsidiaries to Daisytek or any Daisytek Affiliate (other than payables incurred in the ordinary course of the business). From such date until the first day after the two-year anniversary of the latest Distribution Date, PFSweb shall not, and shall not permit any of its Subsidiaries to, create, incur, assume or allow to exist any such indebtedness (other than payables incurred in the ordinary course of the business) with Daisytek or any Daisytek Affiliate.

(f) Until the first day after the two-year anniversary of the latest Distribution Date, PFSweb shall not take, or permit any of its Subsidiaries to take, any other actions or enter into any transaction or series of transactions or agree to enter into any other transactions that would be reasonably likely to jeopardize the Tax-Free Status of the Distribution

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or the qualification of the Contribution as a D Reorganization, including any action or transaction that would be reasonably likely to be inconsistent with any representation made in the Representation Letters, unless prior to the consummation of such action or transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution and the qualification of the Contribution as a D Reorganization, that such action or transaction would not jeopardize the Tax-Free Status of the Distribution or the qualification of the Contribution as a D Reorganization. Notwithstanding the foregoing, if and to the extent that any action or transaction is described in and permitted pursuant to Sections 4.2(a), (b), (c), (d) or (e), such action or transaction shall not be prohibited by this Section 4.2(f).

(g) Notwithstanding the foregoing, the provisions of Section 4.2 shall not prohibit PFSweb from implementing any transaction upon which the IRS has granted a favorable ruling in, or which is described in reasonable detail in, any Tax Opinions/Rulings.

#### 4.3. Cooperation and Other Covenants.

(a) Each of PFSweb and Daisytek International shall furnish the other with a copy of any ruling requests or other documents delivered to the IRS that relates to the Distribution or that could otherwise be reasonably expected to have an impact on the Tax-Free Status of the Contribution and Distribution or the qualification of the Contribution as a D Reorganization.

(b) (i) Each of PFSweb and Daisytek International shall cooperate with the other and shall take (or refrain from taking) all such actions as the other may reasonably request in connection with obtaining any Daisytek determination referred to in Section 4.2. Such cooperation shall include, without limitation, providing any information and/or representations reasonably requested by the other to enable either party (or counsel for such party) to obtain and maintain any Subsequent Tax Opinion/Ruling that would permit any action described in Section 4.2 to be taken by PFSweb or a PFSweb Affiliate. From and after any Representation Date in connection with obtaining any such determination or the receipt of a Subsequent Tax Opinion/Ruling and until the first day after the two-year anniversary of the date of such

determination or receipt, neither party shall take (nor shall it refrain from taking) any action that would have caused such representation to be untrue unless the other party has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution and the qualification of the Contribution as a D Reorganization, that such action would not jeopardize the Tax-Free Status of the Contribution and Distribution or the qualification of the Contribution as a D Reorganization.

(ii) In the event that PFSweb notifies Daisytek that it desires to take one of the actions described in Section 4.2 and Daisytek concludes that such action might jeopardize the Tax-Free Status of the Contribution and Distribution or the qualification of the Contribution as a D Reorganization, Daisytek shall, at the request of PFSweb, elect either to (A) use all commercially reasonable efforts to obtain a Subsequent Tax Opinion/Ruling that would permit PFSweb to take the specified action, and PFSweb shall cooperate in connection with such

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efforts, or (B) provide all reasonable cooperation to PFSweb in connection with PFSweb obtaining such a Subsequent Tax Opinion/Ruling in form and substance reasonably satisfactory to Daisytek; provided, however, that the reasonable costs and expenses of obtaining any such Subsequent Tax Opinion/Ruling shall be borne by Daisytek, unless such Subsequent Tax Opinion/Ruling shall not be obtained as the result of a determination that the proposed action shall jeopardize the Tax-Free Status of the Contribution and Distribution or the qualification of the Contribution as a D Reorganization, in which case the costs and expenses of attempting to obtain such Subsequent Tax Opinion/Ruling shall be borne by PFSweb.

(c) (i) Until all restrictions set forth in Section 4.2 have expired, PFSweb shall give Daisytek written notice of any intention to effect or permit an action or transaction described in Section 4.2 and which is prohibited thereunder at such time within a period of time reasonably sufficient to enable Daisytek (A) to make the determination referred to in Section 4.2 or (B) to prepare and seek any Subsequent Tax Opinion/ Ruling in connection with such proposed action or transaction. Each such notice by PFSweb shall set forth the terms and conditions of the proposed action or transaction, including, without limitation, as applicable, the nature of any related action proposed to be taken by the Board of Directors of PFSweb, the approximate number of shares of PFSweb Capital Stock proposed to be transferred or issued, the approximate Value of PFSweb's assets (or assets of any of PFSweb's Subsidiaries) proposed to be transferred, the proposed timetable for such action or transaction, and the number of shares of PFSweb Capital Stock otherwise then owned by the other party to the proposed action or transaction, all with sufficient particularity to enable Daisytek to make any such required determination, including information required to prepare and seek a Subsequent Tax Opinion/Ruling in connection with such proposed action or transaction. All information provided by PFSweb to Daisytek pursuant to this Section 4.3 shall be deemed subject to the confidentiality obligations of the Separation Agreement.

(ii) Promptly, but in any event within 15 Business Days, after Daisytek receives such written notice from PFSweb, Daisytek shall evaluate such information and notify PFSweb in writing of (A) such determination or (B) Daisytek's intent to seek a Subsequent Tax Opinion/Ruling and the proposed date for submission of the request therefor, which date shall not be more than 45 days after the date Daisytek so notifies PFSweb of Daisytek's intent to seek a Subsequent Tax Opinion/Ruling, provided that such 45-day period shall be appropriately extended for any period of noncompliance by PFSweb with Section 4.3(b). If Daisytek makes a determination that an action or transaction described in Section 4.2 would jeopardize the Tax-Free Status of the Contribution and Distribution or the qualification of the Contribution as a D Reorganization, such notice to PFSweb shall set forth, in reasonable detail, the reasons therefor. Daisytek shall notify PFSweb promptly, but in any event within two Business Days, after the receipt of a Subsequent Tax Opinion/Ruling.

4.4. Indemnification For Tax Liabilities.

(a) Notwithstanding any other provision of this Agreement to the contrary, (i) subject to Section 4.4(b), PFSweb shall indemnify, defend and hold harmless Daisytek International and each Daisytek Affiliate (or any successor to any of them) against any

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and all Tax-Related Losses incurred by Daisytek International or any of them in connection with any proposed tax assessment or tax controversy with respect to the Distribution or the Contribution to the extent caused by any breach by PFSweb of any of its representations, warranties or covenants made pursuant to this Agreement and (ii) Daisytek International shall indemnify, defend and hold harmless PFSweb and each PFSweb Affiliate (or any successor to any of them) against any and all Tax-Related Losses incurred by PFSweb or any of them in connection with any proposed tax assessment or tax controversy with respect to the Distribution or the Contribution to the extent caused by any breach by Daisytek International or Daisytek of any of its representations, warranties or covenants made pursuant to this Agreement. All interest or penalties incurred in connection with such Tax-Related Losses shall be computed for the time period up to and including the date that the Indemnifying Party pays its indemnification obligation in full.

(b) If Daisytek (i) makes a determination pursuant to any clause of Section 4.2, on the basis of a Subsequent Tax Opinion/Ruling or otherwise, and (ii) delivers to PFSweb written notice of such determination pursuant to Section 4.3(c), PFSweb shall have no obligation pursuant to Section 4.4(a), except to the extent that any Tax-Related Losses so incurred resulted from the inaccuracy, incorrectness or incompleteness of any representation provided by PFSweb upon which such Subsequent Tax Opinion/Ruling and/or determination was based.

(c) The Indemnifying Party shall pay any amount due and payable to the Indemnitee pursuant to this Section 4.4 on or before the 90th day following the earlier of agreement or determination that such amount is due and payable to the Indemnitee. All payments pursuant to this Section 4.4 shall be made by wire transfer to the bank account designated by the Indemnitee for such purpose, and on the date of such wire transfer the Indemnifying Party shall give the Indemnitee notice of the transfer.

#### 4.5. Procedure For Indemnification For Tax Liabilities.

(a) If an Indemnitee receives notice of the assertion of any Third-Party Claim with respect to which an Indemnifying Party may be obligated under Section 4.4 to provide indemnification, the Indemnitee shall give the Indemnifying Party notice thereof (together with a copy of such Third-Party Claim, process or other legal pleading) promptly after becoming aware of such Third-Party Claim; provided, however, that the failure of the Indemnitee to give notice as provided in this Section shall not relieve the Indemnifying Party of its obligations under Section 4.4, except to the extent that the Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail.

(b) (i) Daisytek and PFSweb shall jointly control the defense of, and cooperate with each other with respect to defending, any Third-Party Claim with respect to which either party is obligated under Section 4.4 to provide indemnification, provided that either party shall forfeit such joint control right with respect to a particular Third-Party Claim if such party or any Affiliate of such party makes any public statement or filing, or takes any action (including, but not limited to, the filing of any submission or pleading, or the giving of a

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deposition or production of documents, in any administrative or court proceeding) in connection with such Third-Party Claim that is inconsistent in a material respect with any representation or warranty made by such party in this Agreement, the Tax Opinions/Rulings, or the Representation Letters.

(ii) PFSweb and Daisytek shall exercise their rights to jointly control the defense of any such Third-Party Claim solely for the purpose of defeating such Third-Party Claim and, unless required by applicable law, neither PFSweb nor Daisytek shall make any statements or take any actions that could reasonably result in the shifting of liability for any Losses arising out of such Third-Party Claim from the party making such statement or taking such action (or any of its Affiliates) to the other party (or any of its Affiliates).

(iii) Statements made or actions taken by either PFSweb or Daisytek in connection with the defense of any such Third-Party Claim shall not prejudice the rights of such party in any subsequent action or proceeding between the parties.

(iv) If either Daisytek or PFSweb fails to jointly defend any such Third-Party Claim, the other party shall solely defend such Third-Party Claim and the party failing to jointly defend shall use commercially reasonable efforts to cooperate with the other party in its defense of such Third-Party Claim; provided, however, that an Indemnitee may not compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. All costs and expenses of either party in connection with, and during the course of, the joint control of the defense of any such Third-Party Claim shall be initially paid by the party that incurs such costs and expenses. Such costs and expenses shall be reallocated and reimbursed in accordance with the respective indemnification obligations of the parties at the conclusion of the defense of such Third-Party Claim.

4.6. Arbitration. Any dispute between the parties arising out of or relating to this Section 4, including the interpretation of this Section 4, or any actual or purported breach of this Section 4, shall be resolved only in accordance with the following provisions:

(a) Daisytek and PFSweb shall attempt in good faith to resolve any such dispute promptly through negotiations of the parties. In the event of any such dispute, either party may deliver a Dispute Notice to the other party, and within 20 Business Days after the receipt of such Dispute Notice, the appropriate representatives of Daisytek and PFSweb shall meet to attempt to resolve such dispute. If such dispute has not been resolved within the Negotiation Period, or if one of the parties fails or refuses to negotiate such dispute, the issue shall be settled by arbitration pursuant to Section 4.6(b). The results of such arbitration shall be final and binding on the parties.

(b) Either party may initiate arbitration with regard to such dispute by giving the other party written notice either (i) at any time following the end of the Negotiation Period, or (ii) if the parties do not meet within 20 Business Days of the receipt of the Dispute Notice, at any time thereafter. The arbitration shall be conducted by three arbitrators in

accordance with the CPR Rules, except as otherwise provided in this Section 4.6. Within 20 days following receipt of the written notice of arbitration, Daisytek and PFSweb shall each appoint one arbitrator. The two arbitrators so appointed shall appoint the third arbitrator. If either Daisytek or PFSweb shall fail to appoint an arbitrator within such 20-day period, the arbitration shall be by the sole arbitrator appointed by the other party. Whether selected by Daisytek and PFSweb or otherwise, each arbitrator selected to resolve such dispute shall be a tax attorney or tax accountant who is generally recognized in the tax community as a qualified and competent tax practitioner with experience in the tax area involved in the issue or issues to be resolved. Such arbitrators shall be empowered to determine whether one party is required to indemnify the other

pursuant to Section 4.4 and to determine the amount of the related indemnification payment. Each of Daisytek and PFSweb shall bear 50% of the aggregate expenses of the arbitrators, unless the arbitrators otherwise determine that a different allocation of responsibility for expenses is appropriate under the circumstances. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-14. The place of arbitration shall be Dallas, Texas. The final decision of the arbitrators shall be rendered no later than one year from the date of the written notice of arbitration.

4.7. Exclusive Remedies. Except for the right to pursue equitable remedies or as otherwise set forth in an Ancillary Agreement, the remedies provided in this Section 4 shall be deemed the sole and exclusive remedies of the parties with respect to the subject matters of the indemnification provisions of Section 4.4.

5. CERTAIN OTHER COVENANTS.

5.1. Financial And Other Information.

(a) PFSweb agrees that, for so long as Daisytek International is required to consolidate PFSweb's results of operations and financial position or to account for its investment in PFSweb under the equity method of accounting (determined in accordance with generally accepted accounting principles consistently applied):

(i) PFSweb shall, and shall cause each of its Subsidiaries to, maintain a system of internal accounting controls that will provide reasonable assurance that: (A) PFSweb's and such Subsidiaries' books, records and accounts fairly reflect all transactions and dispositions of assets and (B) the specific objectives of accounting control are achieved.

(ii) PFSweb shall, and shall cause each of its Subsidiaries to, maintain a fiscal year which commences on April 1 and ends on March 31 of each calendar year.

(iii) PFSweb shall deliver to Daisytek International a trial balance submission, which shall include amounts relating to each of its Subsidiaries, in such format and detail as Daisytek International may request, as promptly as practicable following the last day of each month.

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(iv) As soon as practicable, after the end of each of the first three fiscal quarters in each fiscal year of PFSweb and after the end of each such fiscal year, PFSweb shall deliver to Daisytek International a consolidated income statement and balance sheet for PFSweb and its Subsidiaries for such fiscal quarter or year, as the case may be.

(v) As soon as practicable, and in any event no later than three days before PFSweb intends to file its Quarterly Financial Statements (as defined below) with the SEC, PFSweb shall deliver to Daisytek International as final as possible drafts of (A) the consolidated financial statements of PFSweb and its Subsidiaries (and notes thereto) for such periods and for the period from the beginning of the current fiscal year to the end of such quarter, setting forth in each case in comparative form for each such fiscal quarter of PFSweb the consolidated figures (and notes thereto) for the corresponding quarter and periods of the previous fiscal year and all in reasonable detail and prepared in accordance with Article 10 of Regulation S-X, and (B) a discussion and analysis by management of PFSweb's and its Subsidiaries' financial condition and results of operations for such fiscal period, including, without limitation, an explanation of any material adverse change, all in reasonable detail and prepared in accordance with Item 303(b) of Regulation S-K. The information set forth in (A) and (B) above is herein referred to as the "Quarterly Financial Statements." If requested by Daisytek International, together with the delivery of the Quarterly Financial Statements, PFSweb shall deliver to Daisytek International a certificate of the chief financial officer of PFSweb to the effect that the Quarterly Financial Statements present fairly, in all material respects, the financial condition and results of operations of PFSweb and its Subsidiaries as of and for the periods presented therein; provided that PFSweb may continue to revise such Quarterly

Financial Statements prior to the filing thereof in order to make corrections and changes which corrections and changes shall be delivered by PFSweb to Daisytek International as soon as practicable thereafter; and, provided, further, that Daisytek International and PFSweb financial representatives shall actively consult with each other regarding any changes (whether or not substantive) which PFSweb may consider making to its Quarterly Financial Statements and related disclosures during the period prior to any anticipated filing with the SEC, and PFSweb shall obtain Daisytek International's consent prior to making any change to PFSweb's Quarterly Financial Statements or related disclosures which would have an effect upon Daisytek International's financial statements or related disclosures. In addition to the foregoing, no Quarterly Financial Statement or any other document which refers, or contains information with respect, to the ownership of PFSweb by Daisytek, the separation of PFSweb from Daisytek International or the Distribution shall be filed with the SEC or otherwise made public by PFSweb or any of its Subsidiaries without the prior written consent of Daisytek International.

(vi) As soon as practicable, and in any event no later than five days before PFSweb intends to file its Annual Financial Statements (as defined below) with the SEC, PFSweb shall deliver to Daisytek International as final as possible drafts of (A) the consolidated financial statements of PFSweb and its Subsidiaries (and notes thereto) for such periods and for the period from the beginning of the current fiscal year to the end of such fiscal year, setting forth in each case in comparative form for each such fiscal year of PFSweb the consolidated figures (and notes thereto) for the corresponding period of the previous fiscal year and all in reasonable detail and prepared in accordance with Article 10 of Regulation S-X, and (B)

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a discussion and analysis by management of PFSweb's and its Subsidiaries' financial condition and results of operations for such fiscal year, including, without limitation, an explanation of any material adverse change, all in reasonable detail and prepared in accordance with Item 303(b) of Regulation S-K. The information set forth in (A) and (B) above is herein referred to as the "Annual Financial Statements." If requested by Daisytek International, together with the delivery of the Annual Financial Statements, PFSweb shall deliver to Daisytek International a certificate of the chief financial officer of PFSweb to the effect that the Annual Financial Statements present fairly, in all material respects, the financial condition and results of operations of PFSweb and its Subsidiaries as of and for the periods presented therein; provided that PFSweb may continue to revise such Annual Financial Statements prior to the filing thereof in order to make corrections and changes which corrections and changes shall be delivered by PFSweb to Daisytek International as soon as practicable thereafter; and, provided, further, that Daisytek International and PFSweb financial representatives shall actively consult with each other regarding any changes (whether or not substantive) which PFSweb may consider making to its Annual Financial Statements and related disclosures during the period prior to any anticipated filing with the SEC, and PFSweb shall obtain Daisytek International's consent prior to making any change to PFSweb's Annual Financial Statements or related disclosures which would have an effect upon Daisytek International's financial statements or related disclosures. In addition to the foregoing, no Annual Financial Statement or any other document which refers, or contains information with respect, to the ownership of PFSweb by Daisytek, the separation of PFSweb from Daisytek International or the Distribution shall be filed with the SEC or otherwise made public by PFSweb or any of its Subsidiaries without the prior written consent of Daisytek International. In any event, PFSweb shall deliver to Daisytek International, no later than 80 days after the end of each fiscal year of PFSweb, the final form of the Annual Financial Statements accompanied by an opinion thereon by PFSweb's independent certified public accountants.

(vii) PFSweb shall deliver to Daisytek International all Quarterly and Annual Financial Statements of each Subsidiary of PFSweb which is itself required to file financial statements with the SEC or otherwise make such financial statements publicly available, with such financial

statements to be provided in the same manner and detail and on the same time schedule as those financial statements of PFSweb required to be delivered to Daisytek International pursuant to this Section 5.1.

(viii) PFSweb and each of its Subsidiaries which files information with the SEC shall deliver to Daisytek International: (A) as soon as the same are prepared, substantially final drafts of: (x) all reports, notices and proxy and information statements to be sent or made available by PFSweb or any of its Subsidiaries to their security holders, (y) all regular, periodic and other reports to be filed under Sections 13, 14 and 15 of the Exchange Act (including Reports on Forms 10-K, 10-Q and 8-K and Annual Reports to Shareholders), and (z) all registration statements and prospectuses to be filed by PFSweb or any of its Subsidiaries with the SEC or any securities exchange pursuant to the listed company manual (or similar requirements) of such exchange (collectively, the documents identified in clauses (x), (y) and (z) are referred to herein as "PFSweb Public Documents"), and (B) as soon as practicable, but in no event later than four Business Days prior to the date the same are printed, sent or filed, whichever is earliest, final copies of all such PFSweb Public Documents; provided that PFSweb may

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continue to revise such PFSweb Public Documents prior to the filing thereof in order to make corrections and changes which corrections and changes shall be delivered by PFSweb to Daisytek International as soon as practicable thereafter; and, provided, further, that Daisytek International and PFSweb financial representatives shall actively consult with each other regarding any changes (whether or not substantive) which PFSweb may consider making to any of its PFSweb Public Documents and related disclosures prior to any anticipated filing with the SEC, and PFSweb shall obtain Daisytek International's consent prior to making any change to its PFSweb Public Documents or related disclosures which would have an effect upon Daisytek International's financial statements or related disclosures. In addition to the foregoing, no PFSweb Public Document or any other document which refers, or contains information with respect, to the ownership of PFSweb by Daisytek, the separation of PFSweb from Daisytek International or the Distribution shall be filed with the SEC or otherwise made public by PFSweb or any of its Subsidiaries without the prior written consent of Daisytek International.

(ix) PFSweb shall, as promptly as practicable, deliver to Daisytek International copies of all annual and other budgets and financial projections relating to PFSweb or any of its Subsidiaries and shall provide Daisytek International an opportunity to meet with management of PFSweb to discuss such budgets and projections.

(x) With reasonable promptness, PFSweb shall deliver to Daisytek International such additional financial and other information and data with respect to PFSweb and its Subsidiaries and their business, properties, financial positions, results of operations and prospects as from time to time may be reasonably requested by Daisytek International.

(xi) Prior to issuance, PFSweb shall deliver to Daisytek International copies of substantially final drafts of all press releases and other statements to be made available by PFSweb or any of its Subsidiaries to the public concerning material developments in the business, properties, earnings, results of operations, financial condition or prospects of PFSweb or any of its Subsidiaries or the relationship between (A) PFSweb or any of its Subsidiaries and (B) Daisytek International or any of its Affiliates. In addition, prior to the issuance of any such press release or public statement, PFSweb shall consult with Daisytek International regarding any changes (other than typographical or other similar minor changes) to such substantially final drafts. Immediately following the issuance thereof, PFSweb shall deliver to Daisytek International copies of final drafts of all press releases and other public statements. PFSweb and Daisytek will consult with each other as to the timing of their annual and quarterly earnings releases and will give each other an opportunity to review the information therein relating to PFSweb and its Subsidiaries and to comment thereon.

(xii) PFSweb shall cooperate fully, and cause its



accountants to cooperate fully, with Daisytek International to the extent requested by Daisytek in the preparation of Daisytek International's public earnings releases, quarterly reports on Form 10-Q, Annual Reports to Shareholders, Annual Reports on Form 10-K, any Current Reports on Form 8-K and any other proxy, information and registration statements, reports, notices, prospectuses and any other filings made by Daisytek International with the SEC, any national securities exchange or

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otherwise made publicly available (collectively, "Daisytek Public Filings"). PFSweb agrees to provide to Daisytek International all information that it reasonably requests in connection with any Daisytek Public Filings or that, in the judgment of Daisytek International's legal counsel, is required to be disclosed or incorporated by reference therein under any law, rule or regulation. Such information shall be provided by PFSweb in a timely manner on the dates requested by Daisytek International (which may be earlier than the dates on which PFSweb otherwise would be required hereunder to have such information available) to enable Daisytek International to prepare, print and release all Daisytek Public Filings on such dates as Daisytek International shall determine. PFSweb shall use commercially reasonable efforts to cause its accountants to consent to any reference to them as experts in any Daisytek Public Filings required under any law, rule or regulation. If and to the extent requested by Daisytek International, PFSweb shall diligently and promptly review all drafts of such Daisytek Public Filings and prepare in a diligent and timely fashion any portion of such Daisytek Public Filing pertaining to PFSweb. Prior to any printing or public release of any Daisytek Public Filing, an appropriate executive officer of PFSweb shall, if requested by Daisytek international, certify that the information relating to PFSweb, any PFSweb Affiliate or the PFSweb Business in such Daisytek Public Filing is accurate, true and correct in all material respects. Unless required by law, rule or regulation, PFSweb shall not publicly release any financial or other information which conflicts with the information with respect to PFSweb, any PFSweb Affiliate or the PFSweb Business that is included in any Daisytek Public Filing without Daisytek International's prior written consent. Prior to the release or filing thereof, Daisytek International shall provide PFSweb with a draft of any portion of a Daisytek Public Filing containing information relating to PFSweb and its Subsidiaries and shall give PFSweb an opportunity to review such information and comment thereon; provided that Daisytek International shall determine in its sole discretion the final form and content of all Daisytek Public Filings.

(b) PFSweb agrees that, for so long as Daisytek International is required to consolidate PFSweb's results of operations and financial position or to account for its investment in PFSweb under the equity method of accounting (in accordance with generally accepted accounting principles):

(i) PFSweb shall not select a different accounting firm to serve as its (and its Subsidiaries') independent certified public accountants ("PFSweb's Auditors") without Daisytek International's prior written consent (which shall not be unreasonably withheld).

(ii) PFSweb shall use its best efforts to enable the PFSweb Auditors to complete their audit such that they will date their opinion on PFSweb's audited annual financial statements on the same date that Daisytek International's independent certified public accountants ("Daisytek's Auditors") date their opinion on Daisytek International's audited annual financial statements (the "Daisytek Annual Statements"), and to enable Daisytek International to meet its timetable for the printing, filing and public dissemination of the Daisytek Annual Statements.

(iii) PFSweb shall provide to Daisytek International on a timely basis all information that Daisytek International reasonably requires to meet its schedule for the

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preparation, printing, filing, and public dissemination of the Daisytek Annual Statements. Without limiting the generality of the foregoing, PFSweb will provide all required financial information with respect to PFSweb and its Subsidiaries to PFSweb's Auditors in a sufficient and reasonable time and in sufficient detail to permit PFSweb's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to Daisytek's Auditors with respect to information to be included or contained in the Daisytek Annual Statements.

(iv) PFSweb shall authorize PFSweb's Auditors to make available to Daisytek's Auditors both the personnel who performed or are performing the annual audit of PFSweb and work papers related to the annual audit of PFSweb, in all cases within a reasonable time prior to PFSweb's Auditors' opinion date, so that Daisytek's Auditors are able to perform the procedures they consider necessary to take responsibility for the work of PFSweb's Auditors as it relates to Daisytek's Auditors' report on Daisytek International's statements, all within sufficient time to enable Daisytek International to meet its timetable for the printing, filing and public dissemination of the Daisytek Annual Statements.

(v) PFSweb shall provide Daisytek International's internal auditors access to PFSweb's and its Subsidiaries, books and records so that Daisytek International may conduct reasonable audits relating to the financial statements provided by PFSweb pursuant hereto as well as to the internal accounting controls and operations of PFSweb and its Subsidiaries.

(vi) PFSweb shall give Daisytek International as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or accounting principles from those in effect on the date hereof. PFSweb will consult with Daisytek International and, if requested, PFSweb will consult with Daisytek International's independent public accountants with respect thereto. PFSweb will not make any such determination or changes without Daisytek International's prior written consent if such a determination or a change would be sufficiently material to be required to be disclosed in PFSweb's financial statements as filed with the SEC or otherwise publicly disclosed therein.

(vii) Notwithstanding clause (vi) above, PFSweb shall make any changes in its accounting estimates or accounting principles that are requested by Daisytek International in order for PFSweb's accounting estimates and principles to be consistent with those of Daisytek International.

Nothing in this Section 5.1 shall require PFSweb to violate any agreement with any of its customers regarding the confidentiality of commercially sensitive information relating to that customer or its business; provided that in the event that PFSweb is required under this Section 5.1 to disclose any such information, PFSweb shall use all commercially reasonable efforts to seek to obtain such customer's consent to the disclosure of such information.

5.2. Other Covenants. PFSweb hereby covenants and agrees that, for so long as Daisytek beneficially owns at least 50% of the outstanding shares of PFSweb Common Stock:

(a) PFSweb shall not, without the prior written consent of Daisytek International (which it may withhold in its sole and absolute discretion), take, or cause to be taken, directly or indirectly, any action, including making or failing to make any election under the law of any state, which has the effect, directly or indirectly, of restricting or limiting the ability of Daisytek to freely sell, transfer, assign, pledge or otherwise dispose of shares of PFSweb Common Stock or would restrict or limit the rights of any transferee of Daisytek as a holder of PFSweb Common Stock. Without limiting the generality of the foregoing, PFSweb shall not, without the prior written consent of Daisytek International (which it may withhold in its sole and absolute discretion), take any action, or recommend to its stockholders any action, which would among other things, limit the legal rights of, or deny any

benefit to, Daisytek as a PFSweb stockholder in a manner not applicable to PFSweb stockholders generally.

(b) PFSweb shall not, without the prior written consent of Daisytek International (which it may withhold in its sole and absolute discretion), issue any shares of PFSweb Capital Stock or any rights, warrants or options to acquire PFSweb Capital Stock (including, without limitation, securities convertible or exchangeable for PFSweb Capital Stock), if after giving effect to such issuances and considering all of the shares of PFSweb Capital Stock acquirable pursuant to such rights, warrants and options to be outstanding on the date of such issuance (whether or not then exercisable), Daisytek would own less than 50% of the then outstanding shares of PFSweb Common Stock; provided, however, the foregoing shall not restrict the issuance of any rights, warrants or options to acquire PFSweb Capital Stock which, by its terms, will not vest or be exercisable prior to the final Distribution Date and the completion of the Distribution.

(c) To the extent that Daisytek or Daisytek International is a party to any contracts or agreements that provide that certain actions of its Subsidiaries may result in Daisytek or Daisytek International being in breach of or in default under such agreements and Daisytek or Daisytek International has advised PFSweb of the existence, and has furnished PFSweb with copies, of such contracts or agreements (or the relevant portions thereof), PFSweb shall not take any actions that reasonably could result in Daisytek or Daisytek International being in breach of or in default under any such contract or agreement. The parties acknowledge and agree that, after the date hereof, Daisytek and Daisytek International may in good faith (and not solely with the intention of imposing restrictions on PFSweb pursuant to this covenant) enter into additional contracts or agreements that provide that certain actions of its Subsidiaries may result in Daisytek or Daisytek International being in breach of or in default under such agreements. PFSweb agrees to keep confidential and not to disclose any information provided to it pursuant to this Section 5.2(c).

## 6. INDEMNIFICATION.

6.1. Indemnification by PFSweb. Subject to Section 6.3, PFSweb shall indemnify, defend and hold harmless Daisytek International, all Daisytek Affiliates and each of their respective directors, officers and employees (in their capacities as such), from and against:

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(a) all Losses relating to, arising out of, or due to, directly or indirectly, any breach by PFSweb or any PFSweb Affiliate of any of the provisions of this Agreement;

(b) all Losses relating to, arising out of, or due to, directly or indirectly, any incorrect, inaccurate or incomplete financial and other information provided by PFSweb or any PFSweb Affiliate to Daisytek International pursuant to Section 5.1 of this Agreement;

(c) all Losses relating to, arising out of, or due to any untrue statement or alleged untrue statement of a material fact contained in, or incorporated by reference into, the IPO Registration Statement or the omission or alleged omission to state (whether pursuant to direct statement or incorporation by reference) in the IPO Registration Statement a material fact required to be stated therein or necessary to make the statements therein not misleading other than with respect to the Daisytek Disclosure Portions; and

(d) all Losses relating to, arising out of, or due to any untrue statement or alleged untrue statement of a material fact contained in, or incorporated by reference into, the Distribution Registration Statement or the omission or alleged omission to state (whether pursuant to direct statement or incorporation by reference) in the Distribution Registration Statement a material fact required to be stated therein or necessary to make the statements therein not misleading other than with respect to the Daisytek Disclosure Portions.

6.2. Indemnification by Daisytek International. Subject to Section 6.3, Daisytek International shall indemnify, defend, and hold harmless

PFSweb, all PFSweb Affiliates, and each of their respective directors, officers and employees (in their capacities as such), from and against:

(a) all Losses relating to, arising out of, or due to, directly or indirectly, any breach by Daisytek International or any Daisytek Affiliate of any of the provisions of this Agreement;

(b) all Losses relating to, arising out of, or due to any untrue statement or alleged untrue statement of a material fact contained in, or incorporated by reference into, the Daisytek Disclosure Portions of the IPO Registration Statement or the omission or alleged omission to state (whether pursuant to direct statement or incorporation by reference) in the Daisytek Disclosure Portions of the IPO Registration Statement a material fact required to be stated therein or necessary to make the statements therein not misleading; and

(c) all Losses relating to, arising out of, or due to any untrue statement or alleged untrue statement of a material fact contained in, or incorporated by reference into, the Daisytek Disclosure Portions of the Distribution Registration Statement or the omission or alleged omission to state (whether pursuant to direct statement or incorporation by reference) in the Daisytek Disclosure Portions of the Distribution Registration Statement a material fact required to be stated therein or necessary to make the statements therein not misleading.

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### 6.3. Other Liabilities.

(a) Except as provided in Section 6.4, this Section 6 shall not be applicable to any Tax-Related Losses, which shall be governed by Section 4 of this Agreement.

(b) This Section 6 shall not be applicable to any Losses relating to, arising out of, or due to any breach of the provisions of any other contract, agreement or understanding between Daisytek International or any Daisytek Affiliate and PFSweb or any PFSweb Affiliate, including, without limitation, the Separation Agreement and any of the other Ancillary Agreements, which Losses shall be governed by the terms of such contract, agreement or understanding.

### 6.4. Tax Effects of Indemnification.

(a) Any indemnification payment made under this Agreement shall be characterized for tax purposes as if such payment were made immediately prior to the latest Distribution Date, and shall therefore be treated, to the extent permitted by law, as either (i) a distribution from PFSweb to Daisytek or (ii) a capital contribution from Daisytek to PFSweb.

(b) The amount of any Loss or Tax-Related Losses for which indemnification is provided under this Agreement shall be (i) increased to take account of net Tax cost, if any, incurred by the Indemnitee arising from the receipt or accrual of an Indemnity Payment hereunder (grossed up for such increase) and (ii) reduced to take account of net Tax benefit, if any, realized by the Indemnitee arising from incurring or paying such Loss or Tax-Related Losses. In computing the amount of any such Tax cost or Tax benefit, the Indemnitee shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt or accrual of any Indemnity Payment hereunder or incurring or paying any indemnified Loss or Tax-Related Losses. Any Indemnity Payment hereunder shall initially be made without regard to this Section 6.4 and shall be increased or reduced to reflect any such net Tax cost (including gross-up) or net Tax benefit only after the Indemnitee has actually realized such cost or benefit. For purposes of this Agreement, an Indemnitee shall be deemed to have "actually realized" a net Tax cost or a net Tax benefit to the extent that, and at such time as, the amount of Taxes payable by such Indemnitee is increased above or reduced below, as the case may be, the amount of Taxes that such Indemnitee would be required to pay but for the receipt or accrual of the Indemnity Payment

or the incurrence or payment of such Loss or Tax-Related Losses, as the case may be. The amount of any increase or reduction hereunder shall be adjusted to reflect any final determination (which shall include the execution of Form 870-AD or successor form) with respect to the Indemnitee's liability for Taxes, and payments between Daisytek and PFSweb to reflect such adjustment shall be made if necessary.

6.5. Effect Of Insurance upon Indemnification. The amount which an Indemnifying Party is required to pay to any Indemnitee pursuant to this Section 6 shall be reduced (including retroactively) by any Insurance Proceeds and other amounts actually recovered by such Indemnitee in reduction of the related Loss, it being understood and agreed that each of PFSweb and Daisytek International shall use commercially reasonable efforts to collect any such proceeds or other amounts to which it or any of its Affiliates is entitled, without regard to

whether it is the Indemnifying Party hereunder. No Indemnitee shall be required, however, to collect any such proceeds or other amounts prior to being entitled to indemnification from an Indemnifying Party hereunder. If an Indemnitee receives an Indemnity Payment in respect of a Loss and subsequently receives Insurance Proceeds or other amounts in respect of such Loss, then such Indemnitee shall pay to such Indemnifying Party an amount equal to the difference between (a) the sum of the amount of such Indemnity Payment and the amount of such Insurance Proceeds or other amounts actually received and (b) the amount of such Loss, in each case adjusted (at such time as appropriate adjustment can be determined) to reflect any premium adjustment attributable to such claim.

6.6. Procedure for Indemnification Involving Third-Party Claims.

(a) If any Indemnitee receives notice of the assertion of any Third-Party Claim with respect to which an Indemnifying Party is obligated under this Agreement to provide indemnification (other than pursuant to Section 4), such Indemnitee shall give such Indemnifying Party notice thereof (together with a copy of such Third-Party Claim, process or other legal pleading) promptly after becoming aware of such Third-Party Claim; provided, however, that the failure of any Indemnitee to give notice as provided in this Section shall not relieve any Indemnifying Party of its obligations under this Section 6, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail.

(b) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably acceptable to the Indemnitee), may elect to defend any Third-Party Claim. If an Indemnifying Party elects to defend a Third-Party Claim, then, within ten Business Days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third-Party Claim so requires), such Indemnifying Party shall notify the Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party shall pay such Indemnitee's reasonable out-of-pocket expenses incurred in connection with such cooperation. Such Indemnifying Party shall keep the Indemnitee reasonably informed as to the status of the defense of such Third-Party Claim. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party shall not be liable to such Indemnitee under this Section 6 for any legal or other expenses subsequently incurred by such Indemnitee in connection with the defense thereof other than those expenses referred to in the preceding sentence; provided, however, that such Indemnitee shall have the right to employ one law firm as counsel ("Separate Counsel"), to represent such Indemnitee in any action or group of related actions (which firm or firms shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnitee's reasonable judgment at any time, either a conflict of interest between such Indemnitee and such Indemnifying Party exists in respect of such claim, or there may be defenses available to such Indemnitee which are different from or in addition to those available to such Indemnifying Party and the representation of both

parties by the same counsel would be inappropriate, and in that event (i) the reasonable fees and expenses of such Separate Counsel shall be paid by such Indemnifying Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one Separate Counsel

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(excluding local counsel) with respect to any Third-Party Claim (even if against multiple Indemnitees)) and (ii) each of such Indemnifying Party and such Indemnitee shall have the right to conduct its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third-Party Claim, or fails to notify an Indemnitee of its election as provided in this Section 6 within the period of ten Business Days described above, the Indemnitee may defend, compromise, and settle such Third-Party Claim and shall be entitled to indemnification hereunder (to the extent permitted hereunder); provided, however, that no such Indemnitee may compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnitee, (i) settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnitee of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that would be reasonably likely to have a material adverse effect on the Indemnitee.

(c) Notwithstanding the provisions of Section 6.6(b), Daisytek International and PFSweb shall jointly control the defense of, and cooperate with each other with respect to defending, any Third-Party Claim with respect to which each party is claiming that it is entitled to indemnification under Section 6.1 or 6.2. If either Daisytek International or PFSweb fails to defend jointly any such Third-Party Claim, the other party shall solely defend such Third-Party Claim and the party failing to defend jointly shall use all commercially reasonable efforts to cooperate with the other party in its defense of such Third-Party Claim; provided, however, that neither party may compromise or settle any such Third-Party Claim without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed. All costs and expenses of either party in connection with, and during the course of, the joint control of the defense of any such Third-Party Claim shall be initially paid by the party that incurs such costs and expenses. Such costs and expenses shall be reallocated and reimbursed in accordance with the respective indemnification obligations of the parties at the conclusion of the defense of such Third-Party Claim.

6.7. Procedure For Indemnification Not Involving Third-Party Claims. If any Indemnitee desires to assert against an Indemnifying Party any claim for indemnification under this Section 6 other than a Third-Party Claim (a "Claim"), the Indemnitee shall deliver to the Indemnifying Party notice of its demand for satisfaction of such Claim (a "Request"), specifying in reasonable detail the amount of such Claim and the basis for asserting such Claim. Within 30 days after the Indemnifying Party has been given a Request, the Indemnifying Party shall either (i) satisfy the Claim requested to be satisfied in such Request by delivering to the Indemnitee payment by wire transfer or a certified or bank cashier's check payable to the Indemnified Party in immediately available funds in an amount equal to the amount of such Claim, or (ii) notify the Indemnitee that the Indemnifying Party contests such Claim by delivering to the Indemnitee a Dispute Notice, stating that the Indemnifying Party objects to such Claim and specifying in reasonable detail the basis for contesting such Claim. Any dispute described in clause (ii) of this Section 6.7 shall be subject to the provisions of Section 7.1.

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6.8. Exclusive Remedies. Except for the right to pursue equitable remedies, the remedies provided in this Section 6 shall be deemed the sole and exclusive remedies of the parties with respect to the subject matters of the indemnification provisions of this Section 6.

7. MISCELLANEOUS

7.1. Dispute Resolution. The parties shall attempt in good faith to resolve any dispute between the parties arising out of or relating to this Agreement promptly through negotiations of the parties prior to seeking any other legal or equitable remedy.

7.2. Survival. The representations and warranties contained in this Agreement shall survive the execution and delivery hereof and the Distribution Date until the expiration of all applicable statutes of limitations.

7.3. Complete Agreement. Except as otherwise set forth in this Agreement, this Agreement and the exhibits hereto shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all prior agreements and understandings, whether written or oral, between the parties with respect to such subject matter.

7.4. Authority. Each of the parties hereto represents to the other that (a) it has the corporate power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate action, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

7.5. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (other than the laws regarding conflicts of laws) as to all matters, including matters of validity, construction, effect, performance and remedies.

7.6. Notices. All Notices shall be in writing and shall be given and deemed received in accordance with the provisions of the Separation Agreement.

7.7. Amendment and Modification. This Agreement may not be amended or modified in any respect except by a written agreement signed by both of the parties hereto.

7.8. Binding Effect; Assignment. This Agreement and all of the provisions hereof shall be binding upon the parties hereto and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Except with respect to a merger of either party with another Person, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either party hereto without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed.

7.9. Third Party Beneficiaries. The Indemnitees and their respective successors shall be third party beneficiaries of the indemnification provisions of Sections 4 and 6, as applicable, and shall be entitled to enforce those provisions and in connection with such enforcement shall be subject to Section 7.6, in each such case as fully and to the same extent as if they were parties to this Agreement. Except as provided in the previous sentence, nothing in this Agreement, express or implied, is intended to or shall confer upon any Person any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, and no Person (other than as provided in the previous sentence) shall be deemed a third party beneficiary under or by reason of this Agreement.

7.10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The Agreement may be executed by facsimile signature.

7.11. Waiver. The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term, but such waiver shall be effective only if it is in writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided in this Agreement, no delay or omission on the part of any party in exercising any right or privilege under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right or privilege under this Agreement operate as a waiver of any other right or privilege under this Agreement nor shall any single or partial exercise of any right or privilege preclude any other or further exercise thereof or the exercise of any other right or privilege under this Agreement. No failure by either party to take any action or assert any right or privilege hereunder shall be deemed to be a waiver of such right or privilege in the event of the continuation or repetition of the circumstances giving rise to such right unless expressly waived in writing by the party against whom the existence of such waiver is asserted.

7.12. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.13. Remedies. Each party shall be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including reasonable attorneys' fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. Each party acknowledges and agrees that under certain circumstances the breach by Daisytek or any of its Affiliates or PFSweb or any of its Affiliates of a term or provision of this Agreement will materially and irreparably harm the other party, that money damages will accordingly not be an adequate remedy for such breach and that the non-defaulting party, in its sole discretion and in addition to its rights under this Agreement and any other remedies it may have at law or in equity, may apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any breach of the provisions of this Agreement.

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[remainder of page is blank]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date and year first written above.

DAISYTEK INTERNATIONAL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

DAISYTEK, INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:



PFSWEB, INC.

By: \_\_\_\_\_

Name:

Title:

## REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this "Agreement"), is made and entered into as of December 7, 1999, between Daisytek International Corporation, a Delaware corporation ("Daisytek International"), Daisytek, Incorporated, a Delaware corporation and wholly-owned subsidiary of Daisytek International ("Daisytek"), and PFSweb, Inc., a Delaware corporation and wholly-owned subsidiary of Daisytek (the "Company").

WHEREAS, the Board of Directors of Daisytek has determined that it would be appropriate and desirable to completely separate the Company's business from Daisytek;

WHEREAS, Daisytek has caused the Company to be incorporated in order to effect such separation;

WHEREAS, Daisytek, Daisytek International and the Company have entered into a Master Separation Agreement and certain ancillary agreements, pursuant to which Daisytek has contributed and transferred to the Company, and the Company has received and assumed, the assets and liabilities then associated with the Company's business as described therein;

WHEREAS, Daisytek, Daisytek International and the Company intend that this contribution, together with the Distribution described therein, qualify as a tax-free reorganization under Sections 355 and 368(a)(1)(D) of the Internal Revenue Code;

WHEREAS, Daisytek currently owns all of the issued and outstanding shares of the Company's common stock (the "Common Stock");

WHEREAS, the Company is offering and selling to the public (the "IPO") by means of a Registration Statement (File No. 333-87657) filed with the Securities and Exchange Commission (the "SEC") on Form S-1 (the "Registration Statement") shares of its Common Stock;

WHEREAS, immediately following the consummation of the IPO, Daisytek shall own not less than 80% of the outstanding shares of Common Stock;

WHEREAS, as soon as practicable following the satisfaction of applicable conditions, and not later than 12 months following the IPO, Daisytek plans to divest itself of its entire ownership of the Company through a tax-free distribution to Daisytek International, to be immediately followed by a tax-free distribution by Daisytek International to the holders of Daisytek International common stock (the "Distribution");

WHEREAS, Daisytek, Daisytek International and the Company are entering into an Initial Public Offering and Distribution Agreement to set forth certain agreements with respect to the IPO and the Distribution; and

WHEREAS, if Daisytek or Daisytek International determine not to complete the Distribution, or the Distribution is abandoned without Daisytek or Daisytek International divesting itself of 100% of the Common Stock it owns, the Company desires to make certain arrangements to provide Daisytek and Daisytek International with registration rights with respect to shares of Common Stock it then holds;

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and intending to be legally bound hereby, the parties hereby agree as follows:

Section 1. Effectiveness of Agreement; Term.

1.1 Effective Date. This Agreement shall become effective upon the date that Daisytek or Daisytek International provides to the Company written notice (the "Abandonment Notice") that it no longer intends to proceed with or complete the Distribution (the "Effective Date").

1.2 Shares Covered. This Agreement covers those shares of Common Stock that are held by Daisytek immediately following the IPO and continue to be held by Daisytek or Daisytek International as of the date of the Abandonment Notice (subject to the provisions of Section 7, the "Shares"). The "Shares" shall include any securities issued or issuable with respect to the Shares by way of a stock dividend or a stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization.

Daisytek, Daisytek International and any Permitted Transferees (as defined in Section 2.5) are each referred to herein as a "Holder" and collectively as the "Holders" and the Holders of Shares proposed to be included in any registration under this Agreement are each referred to herein as a "Selling Holder" and collectively as the "Selling Holders."

## Section 2. Demand Registration.

2.1 Notice. Upon the terms and subject to the conditions set forth herein, upon written notice of any Holder requesting that the Company effect the registration under the Securities Act of 1933, as amended (the "Securities Act"), of any or all of the Shares held by it, which notice shall specify the intended method or methods of disposition of such Shares (which methods may include, without limitation, a Shelf Registration, a Convertible Registration or an Exchange Registration (as such terms are defined in Section 2.6)), the Company will promptly give written notice of the proposed registration to all other Holders and will use its best efforts to effect (at the earliest reasonable date) the registration under the Securities Act of such Shares (and the Shares of any other Holders joining in such request as are specified in a written notice received by the Company within 20 days after receipt of the Company's written notice of the proposed registration) for disposition in accordance with the intended method or methods of

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disposition stated in such request (each registration request pursuant to this Section 2.1 is sometimes referred to herein as a "Demand Registration"); provided, however, that:

(a) the Company shall not be obligated to effect registration with respect to Shares pursuant to this Section 2 within 90 days after the effective date of a previous registration, other than a Shelf Registration, effected with respect to Shares pursuant to this Section 2;

(b) if, while a registration request is pending pursuant to this Section 2, the Company determines in the good faith judgment of counsel of the Company that such registration would reasonably be expected to have a material adverse effect on any existing proposal or plans by the Company or any of its subsidiaries to engage in any material acquisition, merger, consolidation, tender offer, other business combination, reorganization, securities offering or other material transaction, the Company may postpone for up to 90 days the filing or effectiveness of such registration; provided, however, that the Company may delay a Demand Registration hereunder only once in any 12 month period;

(c) except in the case of a Convertible Registration or an Exchange Registration, the number of the Shares registered pursuant to any registration requested pursuant to this Section 2 shall have an aggregate expected offering price of at least \$10 million; and

(d) if a Demand Registration is an underwritten offering and the managing underwriters advise the Company in writing that in their opinion the number of Shares requested to be included in such offering exceeds the number of Shares which can be sold in an orderly manner in such offering within a price range acceptable to the Holders of a majority of the Shares initially requesting such registration or without materially adversely affecting the market for the Common Stock, the Company shall include in such registration the number of Shares requested to be included therein which in the opinion of such underwriters can be sold in an orderly manner within the price range of such offering and without materially adversely affecting the market for the Common Stock, pro rata among the respective Holders thereof on the basis of the amount of Shares owned by each Holder requesting inclusion of Shares in such registration.

2.2 Registration Expenses. All Registration Expenses (as defined in Section 8) for any registration requested pursuant to this Section 2 (including any registration that is delayed or withdrawn) shall be paid by the Company.

2.3 Selection of Professionals. The Holders of a majority of the Shares included in any Demand Registration shall have the right to select the investment banker(s) and manager(s) to administer the offering; provided, however, that if such Holders select an investment banker or manager that was not one of the managers of the IPO, such investment banker or manager shall not administer such offering if the Company reasonably objects thereto. The Holders of a majority of the Shares included in any Demand Registration shall have the right to select the financial printer, the solicitation and/or exchange agent (if any) and one counsel for the Selling Holders. The Company shall select its own outside counsel and independent auditors.

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2.4 Third Person Shares. The Company shall have the right to cause the registration of securities for sale for the account of any Person (including the Company) other than the Selling Holders (the "Third Person Shares") in any registration of the Shares requested pursuant to this Section 2 so long as the Third Person Shares are disposed of in accordance with the intended method or methods of disposition requested pursuant to this Section 2; provided, however, that the Company shall not have the right to cause the registration of such securities of such other Persons if the registration requested pursuant to this Section 2 is a Convertible Registration or an Exchange Registration.

If a Demand Registration in which the Company proposes to include Third Person Shares is an underwritten offering and the managing underwriters advise the Company in writing that in their opinion the number of Shares and Third Person Shares requested to be included in such offering exceeds the number of Shares and Third Person Shares which can be sold in an orderly manner in such offering within a price range acceptable to the Holders of a majority of the Shares initially requesting such registration or without materially adversely affecting the market for the Common Stock, the Company shall not include in such registration any Third Person Shares unless all of the Shares initially requested to be included therein are so included.

2.5 Permitted Transferees. As used in this Agreement, "Permitted Transferees" shall mean any transferee, whether direct or indirect, of Shares designated by Daisytek or Daisytek International (or a subsequent holder) in a written notice to the Company as provided for in Section 9.7. Any Permitted Transferees of the Shares shall be subject to and bound by all of the terms and conditions herein applicable to Holders. The notice required by this Section 2.5 shall be signed by both the transferring Holder and the Permitted Transferees so designated and shall include an undertaking by the Permitted Transferees to comply with the terms and conditions of this Agreement applicable to Holders.

2.6 Shelf Registration; Convertible Registration; Exchange Registration. With respect to any Demand Registration, the requesting Holders may request the Company to effect a registration of the Shares (a) under a registration statement pursuant to Rule 415 under the Securities Act (or any successor rule) (a "Shelf Registration"); (b) in connection with such Holders' registration under the Securities Act of securities (the "Convertible Securities") convertible into, exercisable for or otherwise related to the Shares (a "Convertible Registration"); or (c) in connection with such Holders' offer to exchange the Shares for any debt or equity securities of such Holders, a subsidiary or affiliate thereof or any other Person (an "Exchange Registration").

2.7 SEC Form. The Company shall use its best efforts to cause Demand Registrations to be registered on Form S-3 (or any successor form), and if the Company is not then eligible under the Securities Act to use Form S-3, Demand Registrations shall be registered on Form S-1 (or any successor form). If a Demand Registration is a Convertible Registration or an Exchange Registration, the Company shall effect such registration on the appropriate Form under the Securities Act for such registrations. The Company shall use its best efforts to become eligible to use Form S-3 and, after becoming eligible to use Form S-3, shall use its best efforts to remain so eligible.

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2.8 Other Registration Rights. The Company shall not grant to any Persons the right to request the Company to register any equity securities of the Company, or any securities convertible or exchangeable into or exercisable for such securities unless such rights are consistent with the rights granted under this Agreement.

### Section 3. Piggyback Registrations.

3.1 Notice and Registration. If the Company proposes to register any of its securities for public sale under the Securities Act (whether proposed to be offered for sale by the Company or any other Person), on a form and in a manner which would permit registration of the Shares for sale to the public under the Securities Act (a "Piggyback Registration"), it will give prompt written notice to the Holders of its intention to do so, and upon the written request of any or all of the Holders delivered to the Company within 20 days after the giving of any such notice (which request shall specify the Shares intended to be disposed of by such Holders), the Company will use its best efforts to effect, in connection with the registration of such other securities, the registration under the Securities Act of all of the Shares which the Company has been so requested to register by such Holders (which shall then become Selling Holders), to the extent required to permit the disposition (in accordance with the same method of disposition as the Company proposes to use to dispose of the other securities) of the Shares to be so registered; provided, however, that:

(a) if, at any time after giving such written notice of its intention to register any of its other securities and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register such other securities, the Company may, at its election, give written notice of such determination to the Selling Holders (or, if prior to delivery of the Holders' written request described above in this Section 3.1, the Holders) and thereupon the Company shall be relieved of its obligation to register such Shares in connection with the registration of such other securities (but not from its obligation to pay Registration Expenses to the extent incurred in connection therewith as provided in Section 3.3), without prejudice, however, to the rights (if any) of any Selling Holders immediately to request (subject to the terms and conditions of Section 2) that such registration be effected as a registration under Section 2;

(b) the Company shall not be required to effect any registration of the Shares under this Section 3 incidental to the registration of any of its securities in connection with mergers, acquisitions, exchange offers, subscription offers, dividend reinvestment plans or stock option or other employee benefit plans of the Company;

(c) if a Piggyback Registration is an underwritten primary registration on behalf of the Company and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without materially adversely affecting the marketability of the offering or the market for the Common Stock, the Company shall include in such registration (i) first, the securities the Company proposes to sell, (ii) second, the Shares requested

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to be included in such registration, pro rata among the Holders of such Shares on the basis of the number of Shares owned by each such Holder, and (iii) third, any other securities requested to be included in such registration; and

(d) if a Piggyback Registration is an underwritten secondary registration on behalf of holders of the Company's securities entitled to demand registration thereof and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without materially adversely affecting the marketability of the offering or the market for the Common Stock, the Company shall include in such registration (i) first, the securities requested to be included therein by the holders requesting such registration and the Shares requested to be included in such registration, pro rata among the holders of such securities on the basis of the number of securities owned by each such holder, and (ii) second, any other securities requested to be included in such registration.

No registration of the Shares effected under this Section 3 shall relieve the Company of its obligation to effect a registration of Shares pursuant to Section 2.

3.2 Selection of Professionals. If any Piggyback Registration is an underwritten offering and any of the investment banker(s) or manager(s) selected to administer the offering was not one of the managers of the IPO, such investment banker or manager shall not administer such offering if the Holders of a majority of the Shares included in such Piggyback Registration reasonably object thereto. The Holders of a majority of the Shares included in any Piggyback Registration shall have the right to select one counsel for the Selling Holders. The Company shall select its own outside counsel and independent auditors.

3.3 Registration Expenses. The Company will pay all of the Registration Expenses in connection with any registration pursuant to this Section 3.

#### Section 4. Registration Procedures.

4.1 Registration and Qualification. If and whenever the Company is required to use its best efforts to effect the registration of any of the Shares under the Securities Act as provided in Sections 2 and 3, including an underwritten offering pursuant to a Shelf Registration, the Company will as promptly as is practicable:

(a) prepare and file with the SEC a registration statement with respect to such Shares and use its best efforts to cause such registration statement to become effective; provided that before filing a registration statement or prospectus or any amendments or supplement thereto, the Company shall furnish to the counsel selected by the Holders of a majority of the Shares covered by such registration statement copies of all such documents proposed to be filed (which documents shall be subject to the review and reasonable comment of such counsel);

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(b) except in the case of a Shelf Registration, Convertible Registration or Exchange Registration, prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all of the Shares until the earlier of (i) such time as all of such Shares have been disposed of in accordance with the intended methods of disposition set forth in such registration statement or (ii) the expiration of nine months after such registration statement becomes effective;

(c) in the case of a Shelf Registration (but not including any Convertible Registration), prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all Shares subject thereto for a period ending on the earlier of (i) 18 months after the effective date of such registration statement and (ii) the date on which all the Shares subject thereto have been sold pursuant to such registration statement (the "Shelf Effective Period");

(d) in the case of a Convertible Registration or an Exchange Registration, prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all of the Shares subject thereto until such time as the rules, regulations and requirements of the Securities Act and the terms of the Convertible Securities no longer require such Shares to be registered under the Securities Act (the "Convertible Effective Period");

(e) furnish to the Selling Holders and to any underwriter of such Shares such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, such documents incorporated by reference in such registration statement or prospectus, and such

other documents as the Selling Holders or such underwriter may reasonably request;

(f) use its best efforts to register or qualify all of the Shares covered by such registration statement under such other securities or blue sky laws of such jurisdictions as the Selling Holders or any underwriter of such Shares shall reasonably request, and do any and all other acts and things which may be necessary or advisable to enable the Selling Holders or any underwriter to consummate the disposition in such jurisdictions of the Shares covered by such registration statement, except that the Company shall not for any such purpose be required to qualify generally to do business as a foreign corporation in any jurisdiction where it is not so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

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(g) (i) furnish to the Selling Holders, addressed to them, an opinion of counsel for the Company and (ii) use its best efforts to furnish to the Selling Holders, addressed to them, a "cold comfort" letter signed by the independent public accountants who have certified the Company's financial statements included in such registration statement, covering substantially the same matters with respect to such registration statement (and the prospectus included therein) and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements, as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities and such other matters as the Selling Holders may reasonably request, in each case, in form and substance and as of the dates reasonably satisfactory to the Selling Holders;

(h) immediately notify the Selling Holders, at any time when a prospectus relating to a registration pursuant to Section 2 or 3 is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and at the request of the Selling Holders prepare and furnish to the Selling Holders a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading.

(i) permit any Selling Holder which Selling Holder, in its sole and exclusive judgment, might be deemed to be an underwriter or a controlling person of the Company, to participate in the preparation of such registration or comparable statement and to require the insertion therein of material, furnished to the Company in writing, which in the reasonable judgment of such Holder and its counsel should be included;

(j) to make available members of management of the Company, as selected by the Holders of a majority of the Shares included in such registration, for assistance in the selling effort relating to the Shares covered by such registration, including, but not limited to, the participation of such members of the Company's management in road show presentations.

(k) in the event of the issuance of any stop order suspending the effectiveness of a registration statement, or of any order suspending or preventing the use of any related prospectus or suspending the qualification of any securities included in such registration statement for sale in any jurisdiction, the Company shall use its best efforts promptly to obtain the withdrawal of such order; and

(l) use its best efforts to cause Shares covered by such registration statement to be registered with or approved by such other government agencies or authorities as may be necessary to enable the sellers thereof to consummate the disposition of such Shares.

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The Company may require the Selling Holders to furnish the Company with such information regarding the Selling Holders and the distribution of such Shares as the Company may from time to time reasonably request in writing and as shall be required by law, the SEC or any securities exchange on which any shares of Common Stock are then listed for trading in connection with any registration.

4.2 Underwriting. If requested by the underwriters for any underwritten offering in connection with a registration requested hereunder (including any registration under Section 3 which involves, in whole or in part, an underwritten offering), the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities and contribution to the effect and to the extent provided in Section 6 and the provision of opinions of counsel and accountants' letters to the effect and to the extent provided in Section 4.1(g). The Company may require that the Shares requested to be registered pursuant to Section 3 be included in such underwriting on the same terms and conditions as shall be applicable to the Other Securities being sold through underwriters under such registration; provided, however, that no Selling Holder shall be required to make any representations or warranties to the Company or the underwriters (other than representations and warranties regarding such Holder and such Holder's intended method of distribution) or to undertake any indemnification obligations to the Company or the underwriters with respect thereto, except as otherwise provided in Section 6 hereof. The Selling Holders shall be parties to any such underwriting agreement, and the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of such Selling Holders.

#### 4.3 Blackout Periods for Shelf Registrations.

(a) At any time when a Shelf Registration effected pursuant to Section 2 relating to the Shares is effective, upon written notice from the Company to the Selling Holders that the Company determines in the good faith judgment of the general counsel of the Company that the Selling Holders' sale of the Shares pursuant to the Shelf Registration would require disclosure of material information which the Company has a bona fide business purpose for preserving as confidential and the disclosure of which would have a material adverse effect on the Company or the Company is unable to comply with SEC requirements (an "Information Blackout"), the Selling Holders shall suspend sales of the Shares pursuant to such Shelf Registration until the earlier of (i) the date upon which such material information is disclosed to the public or ceases to be material, (ii) 90 days after counsel of the Company makes such good faith determination or (iii) such time as the Company notifies the Selling Holders that sales pursuant to such Shelf Registration may be resumed (the number of days from such suspension of sales of the Selling Holders until the day when such sales may be resumed hereunder is hereinafter called a "Sales Blackout Period").

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(b) If there is an Information Blackout and the Selling Holders do not notify the Company in writing of their desire to cancel such Shelf Registration, the period set forth in Section 4.1(c)(i) shall be extended for a number of days equal to the number of days in the Sales Blackout Period.

4.4 Listing. In connection with the registration of any offering of the Shares pursuant to this Agreement, the Company agrees to use its best efforts to effect the listing of such Shares on any securities exchange on which any shares of the Common Stock are then listed or otherwise facilitate the public trading of such Shares.

#### 4.5 Holdback Agreements.

(a) The Company shall not effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the seven days prior to and during the 90-day period beginning on the effective date of any registration statement in connection with a Demand Registration (other than a Shelf Registration) or a Piggyback Registration, except pursuant to registrations on Form S-8 or any successor form or unless the underwriters managing any such public offering otherwise agree.



(b) If the Holders of Shares notify the Company in writing that they intend to effect an underwritten sale of Shares registered pursuant to a Shelf Registration pursuant to Section 2 hereof, the Company shall not effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for its equity securities, during the seven days prior to and during the 90-day period beginning on the date such notice is received, except pursuant to registrations on Form S-8 or any successor form or unless the underwriters managing any such public offering otherwise agree.

(c) If the Company completes an underwritten registration with respect to any of its securities (whether offered for sale by the Company or any other Person) on a form and in a manner that would have permitted registration of the Shares and no Holder requested the inclusion of any Shares in such registration, the Holders shall not effect any public sales or distributions of equity securities of the Company, or any securities convertible into or exchangeable or exercisable for such securities, until the termination of the holdback period required from the Company by any underwriters in connection with such previous registration, but in no event more than 90 days from the effective date of such registration.

Section 5. Preparation; Reasonable Investigation. In connection with the preparation and filing of each registration statement registering the Shares under the Securities Act and each sale of the Shares thereunder, the Company will give the Selling Holders and the underwriters, if any, and their respective counsel and accountants, access to its financial and other records, pertinent corporate documents and properties of the Company and such opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified its financial statements as shall be necessary, in the opinion of the Selling Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act.

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Section 6. Indemnification and Contribution.

(a) In the event of any registration of any of the Shares hereunder, the Company will enter into customary indemnification arrangements to indemnify and hold harmless each of the Selling Holders, each of their respective directors and officers, each Person (as defined in (e) below) who participates as an underwriter in the offering or sale of such securities, each officer and director of each underwriter, and each Person, if any, who controls each such Selling Holder or any such underwriter within the meaning of the Securities Act (collectively, the "Covered Persons") against any losses, claims, damages, liabilities and expenses, joint or several, to which such Person may be subject under the Securities Act or otherwise insofar as such losses, claims, damages, liabilities or expenses (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any related registration statement filed under the Securities Act, any preliminary prospectus or final prospectus included therein, or any amendment or supplement thereto, or any document incorporated by reference therein, or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse each such Covered Person, as incurred, for any legal or any other expenses reasonably incurred by such Covered Person in connection with investigating or defending any such loss, claim, liability, action or proceeding; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus or final prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Selling Holder or such underwriter specifically for use in the preparation thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any such Covered Person and shall survive the transfer of such securities by the Selling Holders. The Company also shall agree to provide for contribution as shall reasonably be requested by the Selling Holders or any underwriters in circumstances where such indemnity is held unenforceable.

(b) Each of the Selling Holders, by virtue of exercising its respective

registration rights hereunder, agree and undertake to enter into customary indemnification arrangements to indemnify and hold harmless (in the same manner and to the same extent as set forth in clause (a) of this Section 6) the Company, its directors and officers, each Person who participates as an underwriter in the offering or sale of such securities, each officer and director of each underwriter, and each Person, if any, who controls the Company or any such underwriter within the meaning of the Securities Act, with respect to any statement in or omission from such registration statement, any preliminary prospectus or final prospectus included therein, or any amendment or supplement thereto, if such statement or omission is contained in written information furnished by such Selling Holder to the Company specifically for inclusion in such registration statement or prospectus; provided, however, that the obligation to indemnify shall be individual, not joint and several, for each Selling Holder and shall be limited to the net amount of proceeds received by such Selling Holder from the sale of Shares pursuant to such registration

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statement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or Person and shall survive the transfer of the registered securities by the Selling Holders.

(c) Any Person entitled to indemnification hereunder shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification (provided, however, that the failure to give prompt notice shall not impair any Person's rights to indemnification hereunder to the extent such failure has not prejudiced the indemnifying party) and (ii) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. If such defense is assumed, the indemnifying party shall not be subject to any liability for any settlement made by the indemnified party without its consent (but such consent shall not be unreasonably withheld). An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim shall not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim.

(d) Indemnification and contribution similar to that specified in the preceding subdivisions of this Section 6 (with appropriate modifications) shall be given by the Company and the Selling Holders with respect to any required registration or other qualification of such Shares under any federal or state law or regulation of governmental authority other than the Securities Act.

(e) "Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity, or any department, agency or political subdivision thereof.

Section 7. Benefits and Termination of Registration Rights. The Holders may exercise the registration rights granted hereunder in such manner and proportions as they shall agree among themselves. The registration rights hereunder shall cease to apply to any particular Shares and such securities shall cease to be Shares when: (a) a registration statement with respect to the sale of such Shares shall have become effective under the Securities Act and such Shares shall have been disposed of in accordance with such registration statement; (b) such Shares shall have been sold to the public pursuant to Rule 144 under the Securities Act (or any successor provision); (c) such Shares shall have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the Company and subsequent public distribution of them shall not require registration or qualification of them under the Securities Act or any similar state law then in force; (d) such Shares shall have ceased to be outstanding and (e) in the case of Shares held by a Permitted Transferee, when such Shares become eligible for sale pursuant to Rule 144(k) under the Securities Act (or any successor provision).

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Section 8. Registration Expenses. As used in this Agreement, the term "Registration Expenses" means all expenses incident to the Company's performance of or compliance with the registration requirements set forth in this Agreement including, without limitation, the following: (a) all registration and filing fees; (b) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares to be disposed of under the Securities Act; (c) the reasonable fees, disbursements and expenses of the Selling Holders' counsel and advisors in connection with the registration of the Shares to be disposed of under the Securities Act; (d) all expenses in connection with the preparation, printing and filing of the registration statement, any preliminary prospectus or final prospectus, any other offering document and amendments and supplements thereto and the mailing and delivering of copies thereof to the underwriters and dealers and directly to securityholders in the case of an Exchange Registration; (e) the cost of printing and producing any agreements among underwriters, underwriting agreements, and blue sky or legal investment memoranda, any selling agreements and any amendments thereto or other documents in connection with the offering, sale or delivery of the Shares to be disposed of; (f) all expenses in connection with the qualification of the Shares to be disposed of for offering and sale under state securities laws, including the fees and disbursements of counsel for the underwriters in connection with such qualification and in connection with any blue sky and legal investment surveys; (g) the filing fees incident to securing any required review by any securities exchange on which the Common Stock is then traded or listed of the terms of the sale of the Shares to be disposed of and the trading or listing of all such Shares on each such exchange; (h) the costs of preparing stock certificates; (i) the costs and charges of the Company's transfer agent and registrar; and (j) the fees and disbursements of any custodians, solicitation agents, information agents and/or exchange agents. Registration Expenses shall not include underwriting discounts and underwriters' commissions attributable to the Shares being registered for sale on behalf of the Selling Holders, which shall be paid by the Selling Holders.

#### Section 9. Miscellaneous.

9.1 No Inconsistent Agreements. The Company shall not on or after the date of this Agreement enter into any agreement with respect to its securities that violates or subordinates the rights expressly granted to the Holders in this Agreement. The Company shall not take any action, or permit any change to occur, with respect to its securities which would adversely affect the ability of the Holders of Shares to include such Shares in a registration undertaken pursuant to this Agreement.

9.2 Complete Agreement. Except as otherwise set forth in this Agreement, this Agreement shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all prior agreements and understandings, whether written or oral, between the parties with respect to such subject matter.

9.3 Authority. Each of the parties hereto represents to the other that (i) it has the corporate power and authority to execute, deliver and perform this Agreement, (ii) the execution, delivery and performance of this Agreement by it has been duly authorized by all

necessary corporate action, (iii) it has duly and validly executed and delivered this Agreement, and (iv) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

9.4 Assignment. This Agreement shall be binding on and inure to the benefit of and be enforceable by the parties hereto and with respect to the Company, its respective successors and assigns, and any Permitted Transferees.

9.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (other than the laws regarding conflicts of laws) as to all matters of validity, construction, effect, performance and remedies, executed in and to be performed in that State.

9.6 Severability. In the event that any part of this Agreement is declared

by a court or other judicial or administrative body to be null, void or unenforceable, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect.

9.7 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given: (i) on the date of service if served personally on the party to whom notice is to be given; (ii) on the day of transmission if sent via facsimile transmission to the facsimile number of the recipient's principal executive office, and telephonic confirmation of receipt is obtained promptly after completion of transmission; (iii) on the day after delivery to Federal Express or similar overnight courier or the Express Mail service maintained by the United States Postal Service; or (iv) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to any party at its principal executive office or at such other office as any party shall give by notice in accordance with the terms hereof, and if to any other Holder, the address indicated for such Holder in the Company's stock transfer records with a copy, so long as Daisytek owns any Shares, to Daisytek. Any party may change its address for the purpose of this Section 9.7 by giving the other party written notice of its new address in the manner set forth above.

9.8 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.9 Remedies. Each of Daisytek, Daisytek International and the Company shall be entitled to enforce its rights under this Agreement specifically, to recover damages and costs (including reasonable attorneys' fees) caused by any breach of any provision of this Agreement and to exercise all other rights existing in its favor. Each of Daisytek, Daisytek International and the Company acknowledges and agrees that under certain circumstances the breach by it or any of

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its affiliates of a term or provision of this Agreement will materially and irreparably harm the other party, that money damages will accordingly not be an adequate remedy for such breach and that the non-defaulting party, in its sole discretion and in addition to its rights under this Agreement and any other remedies it may have at law or in equity, may apply to any court of law or equity of competent jurisdiction (without posting any bond or deposit) for specific performance and/or other injunctive relief in order to enforce or prevent any breach of the provisions of this Agreement.

9.10 Waivers. The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term, but such waiver shall be effective only if it is in writing signed by the Company and the Holders of a majority of the Shares. Unless otherwise expressly provided in this Agreement, no delay or omission on the part of any party in exercising any right or privilege under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right or privilege under this Agreement operate as a waiver of any other right or privilege under this Agreement nor shall any single or partial exercise of any right or privilege preclude any other or further exercise thereof or the exercise of any other right or privilege under this Agreement. No failure by either party to take any action or assert any right or privilege hereunder shall be deemed to be a waiver of such right or privilege in the event of the continuation or repetition of the circumstances giving rise to such right unless expressly waived in writing by the party against whom the existence of such waiver is asserted.

9.11 Amendment and Modification. This Agreement may not be amended or modified in any respect except by a written agreement signed by the Company and the Holders of a majority of the Shares.

9.12 Section and Paragraph Headings. The section and paragraph headings in this Agreement are for reference purposes only, are not part of the agreement of the parties hereto, and shall not affect the meaning or interpretation of this

Agreement. All references to days or months shall be deemed references to calendar days or months. All references to "\$" shall be deemed references to United States dollars. Unless the context otherwise requires, any reference to a "Section" shall be deemed to refer to a section of this Agreement. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, unless otherwise specifically provided, they shall be deemed to be followed by the words "without limitation." This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing the document to be drafted.

9.13 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may be executed by facsimile signature.

[remainder of page is blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the date and year first written above.

DAISYTEK INTERNATIONAL CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

DAISYTEK, INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

PFSWEB, INC.

By: \_\_\_\_\_  
Name:  
Title:

## TAX INDEMNIFICATION AND ALLOCATION AGREEMENT

THIS TAX INDEMNIFICATION AND ALLOCATION AGREEMENT ("Agreement") is entered into as of December 7, 1999 by and between Daisytek International Corporation, a Delaware corporation ("Distributing") and PFSweb, Inc., a Delaware corporation ("Controlled") (Distributing and Controlled are sometimes collectively referred to herein as the "Companies"). Capitalized terms used in this Agreement are defined in Section 1 below. Unless otherwise indicated, all "Section" references in this Agreement are to sections of this Agreement.

## PRELIMINARY STATEMENTS

A. As of the date hereof, Distributing is the common parent of an affiliated group of corporations, including Controlled, which has elected to file consolidated Federal income tax returns.

B. Incident to an initial public offering ("IPO") of common stock of Controlled in connection with the separation and distribution of Controlled from Distributing pursuant to one overall integrated plan, the Companies have entered into a Master Separation Agreement and an Initial Public Offering and Distribution Agreement (the "Distribution Agreement").

C. After the IPO, and before the distribution of all of Distributing's stock of Controlled to Distributing's shareholders, Controlled and its subsidiaries (as constituted immediately after the consummation of the IPO) will continue to be members of the affiliated group of which Distributing is the common parent.

D. After the stock of Controlled is distributed to Distributing's shareholders, Controlled will no longer be a member of the affiliated group of which Distributing is the common parent.

E. The Companies desire to provide for and agree upon the allocation between the parties of liabilities for Taxes arising prior to, as a result of, and subsequent to the actions contemplated by the Distribution Agreement, and to provide for and agree upon other matters relating to Taxes.

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. DEFINITION OF TERMS. For purposes of this Agreement (including the recitals hereof), the following terms have the following meanings:

"Accounting Firm" shall have the meaning provided in Section 15.

"Accrued Taxes" means the sum of any liabilities for current tax expense required to be accrued as of the IPO Date under generally accepted accounting principles on the books of Controlled or any member of the Controlled Group for Taxes attributable to Tax Periods or portions thereof ending on or before the IPO Date.

"Adjustment Request" means any formal or informal claim or request filed with any Tax Authority, or with any administrative agency or court, for the adjustment, refund, or credit of Taxes, including (a) any amended Tax return claiming adjustment to the Taxes as reported on the Tax Return or, if applicable, as previously adjusted, or (b) any claim for refund or credit of Taxes previously paid.

"Affiliate" means any entity that directly or indirectly is "controlled" by the person or entity in question. "Control" means the

possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through ownership of voting securities, by contract or otherwise. Except as otherwise provided herein, the term Affiliate shall refer to Affiliates of a person as determined immediately after the Distribution. The term "Affiliate" includes a Subsidiary of an entity.

"Agreement" shall mean this Tax Indemnification and Allocation Agreement.

"Allocated Federal Tax Liability" shall have the meaning provided in Section 5.1(b)(i).

"Carryback" means any net operating loss, net capital loss, excess tax credit, or other similar Tax item, which may or must be carried, from one Tax Period to an earlier Tax Period under the Code or other applicable Tax Law.

"Code" means the U.S. Internal Revenue Code of 1986, as amended, or any successor law.

"Companies" means Distributing and Controlled, collectively, and "Company" means any one of Distributing and Controlled

"Consolidated or Combined Income Tax" means any Income Tax computed by reference to the assets or activities of members of more than one Group.

"Consolidated or Combined State Income Tax" means any State Income Tax computed by reference to the assets or activities of members of more than one Group.

"Consolidated Tax Liability" means, with respect to any Distributing Federal Consolidated Return, the tax liability of the group as that term is used in Treasury Regulation Section 1.1552-1(a)(1) (including applicable interest, additions to the tax, additional amounts, and penalties as provided in the Code), provided that such tax liability be treated as including any alternative minimum tax liability under Code Section 55.

"Controlled Adjustment" means any proposed adjustment by a Tax Authority or claim for refund asserted in a Tax Contest to the extent Controlled would be exclusively liable for any

resulting Tax under this Agreement or exclusively entitled to receive any resulting Tax Benefit under this Agreement.

"Controlled Group" means Controlled and its Subsidiaries and wholly-owned limited liability companies as determined immediately after the IPO Date.

"Controlled Group Disqualifying Event" means any event involving the direct or indirect acquisition of shares of the capital stock of any member of the Controlled Group after the Distribution which has the effect of disqualifying the Distribution or any part thereof from tax-free treatment under Code section 355, whether or not such event is the result of direct actions of, or within the control of, the Controlled or its Subsidiaries, or which otherwise is inconsistent with representations relating to Controlled and the ownership of its capital stock, as set forth in the Ruling Request and the Tax Opinion.

"Controlled Group Prior Federal Tax Liability" shall have the meaning provided in Section 2.2(b)(ii).

"Controlled Group Prior State Tax Liability" shall have the meaning provided in Section 2.3(b)(ii)(B).

"Controlled Group Recomputed Federal Tax Liability" shall have the meaning provided in Section 2.2(b)(i).

"Controlled Group Recomputed State Tax Liability" shall have the meaning provided in Section 2.3(b)(ii)(A).

"Cumulative Federal Tax Payment" shall have the meaning provided in Section 5.1(b)(ii).

"Distributing Adjustment" means any proposed adjustment by a Tax Authority or claim for refund asserted in a Tax Contest to the extent Distributing would be exclusively liable for any resulting Tax under this Agreement or exclusively entitled to receive any resulting Tax Benefit under this Agreement.

"Distributing Federal Consolidated Return" means any United States Federal Tax Return for the affiliated group (as that term is defined in Code Section 1504) that includes Distributing as the common parent and any member of the Controlled Group.

"Distributing Group" means Distributing and its Subsidiaries and wholly owned limited liability companies, excluding any entity that is a member of the Controlled Group.

"Distribution" means the distribution to Distributing shareholders on the Distribution Date of all of the outstanding capital stock of Controlled owned by Distributing

"Distribution Agreement" means the Initial Public Offering and Distribution Agreement dated as of the date of this Agreement between Distributing and Controlled.

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"Distribution Date" means the Distribution Date as that term is defined in the Distribution Agreement.

"Distribution Tax" means the Taxes described in Section 2.5(a)(ii).

"Federal Income Tax" means any Tax imposed by Subtitle A or F of the Code.

"Federal Tax Adjustment" shall have the meaning provided in Section 2.2(b).

"Final Determination" means the final resolution of liability for any Tax for a taxable period, including any related interest or penalties, (i) by IRS Form 870-AD (or any successor form thereto), on the date of acceptance by or on behalf of the IRS, or by a comparable agreement form under state, local or foreign law, except that a Form 870-AD or comparable form that reserves the right of the taxpayer to file a claim for refund and/or the right of the taxing authority to assert a further deficiency shall not constitute a Final Determination with respect to the item or items so reserved; (ii) by a decision, judgment, decree, or other order by a court of competent jurisdiction, which has become final and unappealable; (iii) by a closing agreement or offer in compromise under section 7121 or 7122 of the Code, or comparable agreements under the any state, local or foreign law; (iv) by any allowance of a refund or credit in respect of an overpayment of Tax, including any related interest or penalties, but only after the expiration of all periods during which such refund may be recovered (including by way of offset) by the jurisdiction imposing the Tax; or (v) by any other final disposition, including by reason of the expiration of the applicable statute of limitations or pursuant to Code sections 1311 through 1313, or comparable provision of state, local, or foreign law.

"Foreign Income Tax" means any Tax imposed by any foreign country or any possession of the United States, or by any political subdivision of any foreign country or United States possession, which is an income tax as defined in Treasury Regulation Section 1.901-2.

"Group" means the Distributing Group or the Controlled Group, as the context requires.

"Income Tax" means any Federal Income Tax, State Income Tax, or Foreign Income Tax.



"IPO Date" means the closing date of the IPO.

"Joint Adjustment" means any proposed adjustment resulting from a Tax Contest that is not a (i) Controlled Adjustment, (ii) a Distributing Adjustment, or (iii) any other type of adjustment that give rise to an indemnification payment by one Company to the other Company pursuant to this Agreement.

"Payment Date" means (i) with respect to any Distributing Federal Consolidated Return, the due date for any required installment of estimated taxes determined under Code Section 6655, the due date (determined without regard to extensions) for filing the return determined under Code Section 6072, and the date the return is filed, and (ii) with respect to any Tax Return

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for any Consolidated or Combined State Income Tax, the corresponding dates determined under the applicable Tax Law.

"Post-IPO Period" means any Tax Period beginning after the IPO Date.

"Post-Distribution Period" means any Tax Period beginning after the Distribution Date.

"Pre-Distribution Period" means any Tax Period beginning on or before the Distribution Date.

"Pre-IPO Period" means any Tax Period ending on or before the IPO Date.

"Prime Rate" means the base rate on corporate loans charged by Chase Bank of Texas, N.A., from time to time, compounded daily on the basis of a year of 365 or 366 (as applicable) days and actual days elapsed.

"Prohibited Action" shall have the meaning provided in Section 11.

"Responsible Company" means, with respect to any Tax Return, the Company having responsibility for preparing and filing such Tax Return under this Agreement.

"Ruling Request" means the letter to be filed by Distributing with the Internal Revenue Service requesting a ruling from the Internal Revenue Service regarding certain tax consequences of the Distribution (including all attachments, exhibits, and other materials submitted with such ruling request letter) and any amendment or supplement to such ruling request letter.

"Separate Company Tax" means any Tax computed by reference to the assets and activities of a member or members of a single Group.

"State Income Tax" means any Tax imposed by any State of the United States or by any political subdivision of any such State which is imposed on or measured by net income, including state and local franchise or similar Taxes measured by net income.

"Subsidiary" shall have the meaning set forth in Treasury Regulations section 1.1502-1(c).

"Tax" or "Taxes" means any income, gross income, gross receipts, profits, capital stock, franchise, withholding, payroll, social security, workers compensation, unemployment, disability, property, ad valorem, stamp, excise, severance, occupation, service, sales, use, license, lease, transfer, import, export, value added, alternative minimum, estimated or other tax of any kind (including any fee, assessment, or other charge in the nature of or in lieu of any tax) imposed by any governmental entity or political subdivision thereof, and any interest, penalties, additions to tax, or additional amounts in respect of the foregoing.

"Tax Authority" means, with respect to any Tax, the governmental entity, or political subdivision thereof that imposes such Tax, and the agency (if any) charged with the collection of such Tax for such entity or subdivision.

"Tax Benefit" means any refund, credit, or other reduction in otherwise required Tax payments (including any reduction in estimated tax payments).

"Tax Contest" means an audit, review, examination, or any other administrative or judicial proceeding with the purpose or effect of redetermining Taxes of any of the Companies or their Affiliates (including any administrative or judicial review of any claim for refund) for any Pre-Distribution Period.

"Tax Contest Committee" shall have the meaning provided in Section 9.2.

"Tax Item," means, with respect to any Income Tax, any item of income, gain, loss, deduction, and credit.

"Tax Law" means the law of any governmental entity or political subdivision thereof relating to any Tax.

"Tax Opinion" means a tax opinion received from Arthur Andersen LLP on the tax consequences of the Distribution and related events.

"Tax Period" means, with respect to any Tax, the period for which the Tax is reported as provided under the Code or other applicable Tax Law.

"Tax Records" means Tax Returns, Tax Return workpapers, documentation relating to any Tax Contests, and any other books of account or records required to be maintained under the Code or other applicable Tax Laws or under any record retention agreement with any Tax Authority.

"Tax Return" means any report of Taxes due, any claims for refund of Taxes paid, any information return with respect to Taxes, or any other similar report, statement, declaration, or document required to be filed under the Code or other Tax Law, including any attachments, exhibits, or other materials submitted with any of the foregoing, and including any amendments or supplements to any of the foregoing.

"Treasury Regulations" means the regulations promulgated from time to time under the Code as in effect for the relevant Tax Period.

Section 2. ALLOCATION OF TAX LIABILITIES. The provisions of this Section 2 are intended to determine each Company's liability for Taxes for Pre-Distribution and Post-Distribution Periods. The provisions of Section 2.5(a)(ii) and (b) are intended to determine each Company's liability for Distribution Taxes, if any, under this Agreement, even though such Taxes may arise on or after the Distribution Date. Once the liability has been determined under

this Section 2, Section 5 determines the time when payment of the liability is to be made, and whether the payment is to be made to the Tax Authority directly or to the other Company.

#### 2.1 General Rule

(a) Distributing Liability. Distributing shall be liable for Taxes not specifically allocated to the Controlled under this Section 2. Distributing shall indemnify and hold harmless the Controlled Group from and against any liability for Taxes for which Distributing is liable under this Section 2.1 (a).

(b) Controlled Liability. Controlled shall be liable for, and shall indemnify and hold harmless the Distributing Group from and against any liability for, Taxes that are allocated to Controlled under this Agreement.

## 2.2 Allocation of United States Federal Income Tax.

Except as provided in Section 2.5:

### (a) Allocation of Tax Relating to Federal Consolidated Returns.

(i) Pre-IPO Period. Distributing shall be liable for, and shall hold Controlled Group harmless for, any Federal Income Tax relating to Federal Consolidated Returns for all Tax Periods or portions thereof ending on or before the IPO Date. Except as provided in Section 4.7(c), Distributing is entitled to any refunds of Federal Income Tax for Tax Periods or portions thereof ending on or before the IPO Date. Notwithstanding the foregoing, Controlled shall be liable for, and shall hold the Distributing Group harmless against, the amount of Federal Income Tax for all Tax Periods or portions thereof ending on the IPO Date equal to the Accrued Taxes in respect of such taxes of the Controlled Group as of the IPO Date.

(ii) Tax Periods Ending After the IPO Date. Except as provided in clause (i) above, for all Tax Periods ending after the IPO Date (other than Tax Periods beginning after the Distribution Date), the Consolidated Tax Liability shall be allocated between the Groups in accordance with the method prescribed in Treasury Regulation Section 1.1552-1(a)(1) (as in effect on the date hereof) determined by aggregating the amounts allocable to the members of each respective Group into a single amount for each Group. For purposes of such allocation, the excess, if any, of (i) Consolidated Tax Liability over (ii) Consolidated Tax Liability determined without regard to any alternative minimum tax liability under Code Section 55, shall be allocated among the Groups in accordance with their respective amounts of alternative minimum taxable income, and any corresponding alternative minimum tax credit shall be allocated in accordance with the allocation of such alternative minimum tax liability. In addition, in order to avoid duplication of the allocation of Consolidated Tax Liability set forth in clause (i) above, for purposes of this clause (ii), Tax Items of the Controlled Group for the portion of any Tax Period ending on the IPO Date shall be treated as Tax Items of the Distributing Group. Any amount so allocated to the Controlled Group shall be a liability of Controlled to Distributing under this Section 2. Amounts described in Code Section 1561 (relating to limitations on certain

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multiple benefits) shall be divided equally among the Distributing Group and Controlled Group to the extent permitted by the Code.

(iii) Tax Periods Beginning After the Distribution Date. The Distributing Group and the Controlled Group shall each be liable for, and shall indemnify the other against, its respective liability for Federal Income Taxes for all Post-Distribution Periods.

(b) Allocation of Federal Consolidated Return Tax Adjustments. If there is any adjustment to the reported Tax liability with respect to any Distributing Federal Consolidated Return, or to such Tax liability as previously adjusted, Controlled shall be liable to Distributing for the excess (if any) of--

(i) the share of the Consolidated Tax Liability allocated to the Controlled Group computed in accordance with paragraph (a) based on the Tax Items of members of the Controlled Group as so adjusted (the "Controlled Group Recomputed Federal Tax Liability"); minus

(ii) the share of the Consolidated Tax Liability allocated to the Controlled Group computed in accordance with paragraph (a) based on the Tax Items of such members as reported (or if applicable, as previously adjusted) (the "Controlled Group Prior Federal Tax Liability").

If the Controlled Group Prior Federal Tax Liability exceeds the Controlled Group Recomputed Federal Tax Liability, Distributing shall be liable to Controlled for such excess. For purposes of the preceding sentence, if the Controlled Group has a net operating loss or net capital loss after taking into account the adjustments allocable to such group, the Controlled Group Recomputed Federal Tax Liability shall be less than zero to the extent such net operating loss or net capital loss produces a Tax Benefit for the applicable taxable year, and the amount that Distributing shall be liable to Controlled pursuant to the preceding sentence shall be equal to the sum of the Controlled Group Prior Federal Tax Liability and the amount of such Tax Benefit.

(c) Compensation for Use of Tax Attributes. If, for any Pre-Distribution Period, the Tax liability of the Distributing Group under Section 2.2(a) is reduced by virtue of any Tax Item attributable to the Controlled Group for Tax Periods or portions thereof beginning after the IPO Date, Distributing will compensate Controlled for the Tax Benefit so received. If, for any Tax Period or portion thereof beginning after the IPO Date, the Tax liability of the Controlled Group under Section 2.2(a) is reduced by virtue of any Tax Item attributable to the Distributing Group, Controlled will compensate Distributing for the Tax Benefit so received. For example, the Controlled Group will be compensated for any net operating losses generated by a member of the Controlled Group in a Tax Period or portion thereof beginning after the IPO Date that reduces the Consolidated Tax Liability of the Distributing Group for a Tax Period or portion thereof beginning on or before the Distribution Date. For this purpose, any such Tax Benefit shall be determined under the principles of Treas. Reg. Section 1.1502-33(d)(3), using 100% as the applicable percentage.

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2.3 Allocation of State Income Taxes. Except as provided in Section 2.5, State Income Taxes shall be allocated as follows:

(a) Separate Company Taxes. In the case of any State Income Tax which is a Separate Company Tax:

(i) Tax Periods or Portions Ending on or Before the IPO Date. Distributing shall be liable for, and shall indemnify the Controlled Group against, any Separate Company Tax for all Tax Periods or portions thereof ending on or before the IPO Date. Notwithstanding the foregoing, Controlled shall be liable for, and shall hold the Distributing Group harmless against, the amount of Separate Company Taxes for all Tax Periods or portions thereof ending on the IPO Date equal to the Accrued Taxes in respect of such taxes of the Controlled Group as of the IPO Date.

(ii) Tax Periods or Portions Beginning After the IPO Date. Controlled shall be liable for, and shall hold the Distributing Group harmless against, any Separate Company Taxes imposed on any member of the Controlled Group for any Tax Period or portion thereof beginning after the IPO Date. Distributing shall be liable for, and shall hold the Controlled Group harmless against, any Separate Company Taxes of any member of the Distributing Group for any Tax Period or portion thereof beginning after the IPO Date.

(b) Allocation of Consolidated or Combined State Income Taxes. In the case of any State Income Tax which is a Consolidated or Combined State Income Tax:

(i) Pre-IPO Period. Distributing shall be liable for, and shall hold Controlled Group harmless for, any State Income Tax, relating to State Consolidated or Combined Returns, for all Tax Periods or portions thereof ending on or before the IPO Date. Distributing is entitled to any refunds of Tax attributable to Tax Periods or portions thereof ending on or before the IPO Date. Notwithstanding the foregoing, Controlled shall be liable for, and shall hold the Distributing Group harmless against, the amount of Consolidated or Combined State Income Tax for all Tax Periods or Portions thereof ending on the IPO Date equal to the Accrued Taxes in respect of such taxes of the Controlled Group as of the IPO Date.

(ii) Tax Periods Ending After the IPO Date. Except as provided in clause (i) above, for all Tax Periods ending after the IPO Date (other than Tax Periods beginning after the Distribution Date), the Consolidated or Combined State Tax Liability shall be allocated between the Groups in accordance with the

method prescribed in Treasury Regulation Section 1.1552-1(a)(1) (as in effect on the date hereof) determined by aggregating the amounts allocable to the members of each respective Group into a single amount for each Group, appropriately reflecting income, apportionment, and other items of members. In addition, in order to avoid duplication of the allocation of Consolidated Tax Liability set forth in clause (i) above, for purposes of this clause (ii), Tax Items of the Controlled Group for the portion of any Tax Period or portion thereof ending on or before the IPO Date shall be treated as Tax Items of the Distributing Group. Any amount so allocated to the Controlled Group shall be a liability of Controlled to Distributing under this Section 2.

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(iii) Tax Periods Beginning After the Distribution Date. The Distributing Group and the Controlled Group shall each be liable for, and shall indemnify the other against, its respective liability for Consolidated or Combined State Income Taxes for all Post-Distribution Periods.

(c) Allocation of State Consolidated or Combined Return Tax Adjustments. If there is any adjustment to the amount of Consolidated or Combined State Income Tax reported on any Tax Return (or as previously adjusted), the liability of the Controlled Group shall be recomputed as provided in this subparagraph. Controlled shall be liable to Distributing for the excess (if any) of-

(i) the State Income Tax liability computed in accordance with paragraph (b) based on the income, apportionment factors, and other items of such members as reported (or, if applicable, as previously adjusted) (the "Controlled Group Recomputed State Tax Liability"); minus

(ii) the State Income Tax liability computed in accordance with paragraph (b) based on the income, apportionment factors, and other items of such members as reported (or, if applicable, as previously adjusted) (the "Controlled Group Prior State Tax Liability").

If the Controlled Group Prior State Tax Liability exceeds the Controlled Group Recomputed State Tax Liability, Distributing shall be liable to Controlled for such excess. For purposes of the preceding sentence, if the Controlled Group has a net operating loss after taking into account the adjustments allocable to such group, the Controlled Group Recomputed State Tax Liability shall be less than zero to the extent such net operating loss produces a Tax Benefit in consolidation for the applicable taxable year, and the amount that Distributing shall be liable to Controlled pursuant to the preceding sentence shall be equal to the sum of the Controlled Group Prior State Tax Liability and the amount of such Tax Benefit.

(d) Compensation for Use of Tax Attributes. If, for any Tax Period beginning on or before the Distribution Date, the Tax liability of the Distributing Group under Section 2.3(b) is reduced by virtue of any Tax Item attributable to the Controlled Group for Tax Periods or portions thereof beginning after the IPO Date and ending on or before the Distribution Date, Distributing will compensate Controlled for the Tax Benefit so received. If, for any Tax Period or portion thereof beginning after the IPO Date, the Tax liability of the Controlled Group under Section 2.3(b) is reduced by virtue of any Tax Item attributable to the Distributing Group, Controlled will compensate Distributing for the Tax Benefit so received. For example, the Controlled Group will be compensated for any net operating losses generated by a member of the Controlled Group in a Tax Period or portion thereof beginning after the IPO Date that reduces the Consolidated or State Combined Tax Liability of the Distributing Group for any Pre-Distribution Period. For this purpose, any such Tax Benefit shall be determined under the principles of Treas. Reg. Section 1.1502-33(d)(3), using 100% as the applicable percentage.

2.4 Allocation of Other Taxes. Except as provided in Section 2.5, all Taxes other than those specifically allocated pursuant to Section 2.3 shall be allocated based on the legal

entity on which the legal incidence of the Tax is imposed. As between the parties to this Agreement, Controlled shall be liable for all Taxes imposed on any member of the Controlled Group. The Companies believe that there is no Tax not specifically allocated pursuant to Section 2.3 which is legally imposed on more than one legal entity (e.g., joint and several liability); however, if there is any such Tax, it shall be allocated in accordance with past practices as reasonably determined by the affected Companies, or in the absence of such practices, in accordance with any allocation method agreed upon by the affected Companies.

## 2.5 Distribution and Other Taxes

(a) Distributing Liability. Except as otherwise provided in this Section 2.5, Distributing shall be liable for, and shall indemnify and hold harmless the Controlled Group from and against any liability for, all Taxes resulting from the Distribution, including:

(i) Any sales and use, gross receipts, or other similar transfer Taxes imposed on the transfers occurring pursuant to the Distribution; and

(ii) any Federal Income Tax or State Income Tax resulting from any income or gain recognized by any member of the Distributing Group as a result of transferring assets to Controlled in connection with the Distribution, or distributing the shares of Controlled and failing to qualify for tax-free treatment pursuant to Section 355 of the Code and related provisions;

(b) Indemnity for Certain Acts. Controlled shall be liable for, and shall indemnify and hold harmless the Distributing Group from and against any liability for, any Distribution Tax (described in subparagraph (ii) above) to the extent arising as a result after the Distribution Date of Controlled's engaging in any Prohibited Action or the occurrence of a Controlled Group Disqualifying Event. Notwithstanding anything in this paragraph (b) to the contrary, to the extent, if any, that this paragraph (b) allocates liability between the Companies in a manner contrary to the allocation of liability provided in Section 4 of the Distribution Agreement, Section 4 of the Distribution Agreement shall control.

## Section 3. PRORATION OF TAXES FOR STRADDLE PERIODS

3.1 Tax Periods Straddling the IPO Date. In the case of any Tax Period beginning on or before the IPO Date and ending after the IPO Date, Tax Items shall be apportioned between the portion ending on the IPO Date and the portion beginning after the IPO Date in accordance with the principles in Treas. Reg. Section 1.1502-76(b) using a closing-of-the-books method. However, Tax Items (other than extraordinary items within the meaning of Treas. Reg. Section 1.1502-76(b)(2)(ii)(C)) for the month including the IPO Date will be allocated to the portion ending on the IPO Date and the portion beginning after the IPO Date using the principles of the ratable allocation method of Treas. Reg. Section 1.1502-76(b)(2)(iii).

3.2 Tax Periods Straddling the Distribution Date. In the case of any Tax Period beginning on or before the Distribution Date and ending after the Distribution Date (or between the Pre-Distribution Period ending on the Distribution Date and the Post-Distribution Period

beginning on the day after the Distribution Date), Tax Items shall be

apportioned between the portion ending on the Distribution Date and the portion beginning after the Distribution Date (or between such Pre-Distribution Period and such Post-Distribution Period) in accordance with the principles in Treas. Reg. Section 1.1502-76(b) using a closing-of-the-books method. However, Tax Items (other than extraordinary items within the meaning of Treas. Reg. Section 1.1502-76(b)(2)(ii)(C)) for the month including the Distribution Date will be allocated to the portion ending on the Distribution Date and the portion beginning after the Distribution Date using the principles of the ratable allocation method of Treas. Reg. Section 1.1502-76(b)(2)(iii). In determining the apportionment of Tax Items between the portion ending on the Distribution Date and the portion beginning after the Distribution Date (or between such Pre-Distribution Period and such Post-Distribution Period), any Tax Items arising on the Distribution shall be treated as extraordinary items described in Treas. Reg. Section 1.1502-76(b)(2)(ii)(C) and shall be allocated to the pre-Distribution portion (or the Pre-Distribution Period).

#### Section 4. PREPARATION AND FILING OF TAX RETURNS

4.1 General. Except as otherwise provided in this Section 4, Tax Returns shall be prepared and filed when due (including extensions) by the person obligated to file such Tax Returns under the Code or applicable Tax Law. The Companies shall provide, and shall cause their Affiliates to provide, assistance and cooperate with one another in accordance with Section 7 with respect to the preparation and filing of Tax Returns, including providing information required to be provided in Section 7.

4.2 Distributing's Responsibility. Distributing has the exclusive obligation and right to prepare and file, or to cause to be prepared and filed:

- (a) Distributing Federal Consolidated Returns for all Tax Periods;
- (b) Consolidated or Combined State Income Tax Returns for all Tax Periods; and
- (c) Tax Returns for State Income Taxes (including Tax Returns with respect to State Income Taxes that are Separate Company Taxes) for members of the Distributing Group.

4.3 Controlled's Responsibility. Controlled shall prepare and file, or shall cause to be prepared and filed, all Tax Returns required to be filed by or with respect to the Controlled or members of the Controlled Group other than those Tax Returns which Distributing is required to prepare and file under Section 4.2.

#### 4.4 Tax Accounting Practices.

(a) General. Except as otherwise provided in this Section 4.4, any Tax Return for any Pre-Distribution Period, and any Tax Return for any Post-Distribution Period to the extent Tax Items reported on such Tax Return might reasonably affect Tax Items reported on and Tax Return for any Pre-Distribution Period, shall be prepared in accordance with past Tax accounting practices used with respect to the Tax Returns in question (unless such past practices

are no longer permissible under the Code or other applicable Tax Law). To the extent any Tax Items are not covered by past practices (or in the event such past practices are no longer permissible under the Code or other applicable Tax Law), such Tax Items shall be reported in accordance with reasonable Tax accounting practices selected by the Distributing or Controlled depending on whose Tax Liability under Section 2 is affected thereby. If the Tax liability of both Distributing or Controlled under Section 2 would be affected by the reporting of the Tax Item, the parties shall negotiate in good faith to determine the reporting of the Tax Item. Any dispute regarding the proper tax treatment of the Tax Item shall be referred for resolution pursuant to Section 15, sufficiently in advance of the filing date of such Tax Return (including extensions) to permit timely filing of the return.

(b) Reporting of Distribution Tax Items. The tax treatment reported on any Tax Return of Tax Items relating to the Distribution shall be consistent with the treatment of such item in the Ruling Request (unless such treatment is not permissible under the Code) or Tax Opinion. To the extent there is a Tax Item relating to the Distribution which is not covered by the Ruling Request or the Tax Opinion, the Companies shall agree on the tax treatment of any such Tax Item reported on any Tax Return. For this purpose, the tax treatment of such Tax Items on a Tax Return shall be determined by the Responsible Company with respect to such Tax Return and shall be agreed to by the other Company unless either (i) there is no reasonable basis as defined under Section 6662 of the Code for such tax treatment, or (ii) such tax treatment would have a material impact on the other Company or the Ruling Request. Such Tax Return shall be submitted for review pursuant to Section 4.6(a), and any dispute regarding such proper tax treatment shall be referred for resolution pursuant to Section 15, sufficiently in advance of the filing date of such Tax Return (including extensions) to permit timely filing of the return.

4.5 Consolidated or Combined Returns. The Companies will elect and join, and will cause their respective Affiliates to elect and join, in filing consolidated, unitary, combined, or other similar joint Tax Return, to the extent each entity is eligible to join in such Tax Returns, if the Companies reasonably determine that the filing of such Tax Returns is consistent with past reporting practices, or in the absence of applicable past practices, will result in the minimization of the net present value of the aggregate Tax to the entities eligible to join in such Tax Returns.

#### 4.6 Right to Review Tax Returns

(a) General. The Responsible Company with respect to any Tax Return shall make such Tax Return and related workpapers available for review by the other Companies, if requested, to the extent (i) such Tax Return relates to Taxes for which the requesting party may be liable, (ii) such Tax Return relates to Taxes for which the requesting party may be liable in whole or in part or for any additional Taxes owing as a result of adjustments to the amount of Taxes reported on such Tax Return, (iii) such Tax Return relates to Taxes for which the requesting party may have a claim for Tax Benefits under this Agreement, or (iv) the requesting party reasonably determines that it must inspect such Tax Return to confirm compliance with the terms of this Agreement. The Responsible Company shall use its reasonable best efforts to make such Tax Return available for review as required under this paragraph sufficiently in advance of the due date for filing such Tax Returns to provide the requesting party with a meaningful opportunity to analyze and comment on such Tax Returns and have such Tax Returns modified

before filing, taking into account the person responsible for payment of the tax (if any) reported on such Tax Return and the materiality of the amount of Tax liability with respect to such Tax Return. The Companies shall attempt in good faith to resolve any issues arising out of the review of such Tax Returns. Issues that cannot be resolved in the Companies shall be resolved in the manner set forth in Section 15.

(b) Execution of Returns Prepared by Other Party. In the case of any Tax Return which is required to be prepared and filed by one Company under this Agreement and which is required by law to be signed by another Company (or by its authorized representative), the Company which is legally required to sign such Tax Return shall not be required to sign such Tax Return under this Agreement if there is no reasonable basis for the tax treatment of any material items reported on the Tax Return.

#### 4.7 Claims for Refund, Carrybacks, and Self-Audit Adjustments ("Adjustment Requests")

(a) Consent Required for Adjustment Requests Related to Certain Taxes. Except as provided in paragraph (b) below, unless the other Company consents in writing, which consent shall not be unreasonably withheld, no Adjustment Request with respect to any Tax for any Pre-Distribution Period shall be filed by Distributing or Controlled if such Adjustment Request would result



in any increase of the Tax liability of the other Company under Section 2. Any Adjustment Request which the Companies consent to make under this Section 4.7 shall be prepared and filed by the Responsible Company under Section 4.2 for the Tax Return to be adjusted. The Company requesting the Adjustment Request shall provide to the Responsible Company all information required for the preparation and filing of such Adjustment Request in such form and detail as reasonably requested by the Responsible Company. Notwithstanding anything to the contrary in this paragraph (a), the consent of the Controlled shall not be necessary for any Carryback by Distributing or any member of the Distributing Group provided such Carryback constitutes a Distributing Adjustment in the year (or years) such Carryback is absorbed.

(b) Exception for Adjustment Requests Related to Audit Adjustments. Notwithstanding paragraph (b) above, Distributing or Controlled may, without the consent of the other Company, make any Adjustment Request necessary to conform the treatment of a Tax Item in a subsequent Tax Period to the treatment of such Tax Item in a prior Tax Period that has been determined pursuant to a Final Determination. Distributing or Controlled must, if requested by the other Company, make any such Adjustment Request if the effect thereof is to reduce such other Company's liability for Taxes under Section 2.

(c) Carrybacks. Controlled shall be entitled, without the consent of Distributing, to require Distributing to file an Adjustment Request for any Pre-Distribution Period to take into account any permissible carryback of any net operating loss, net capital loss, or credit for any Post-Distribution Period that is attributable to any member of the Controlled Group.

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(d) Other Adjustment Requests Permitted. Nothing in this Section 4.7 shall prevent any Company or member of its Group from filing any Adjustment Request with respect to matters for such Company or member of its Group is liable under Section 2. Any refund or credit obtained as a result of any such Adjustment Request (or otherwise) shall be for the account of the person liable for the Tax under Section 2.

(d) Payment of Refunds. Any refunds or other Tax Benefits received by any Company (or any of its Affiliates) as a result of any Adjustment Request which are for the account of another Company (or member of such other Company's Group) shall be paid by the Company receiving (or whose Affiliate received) such refund or Tax Benefit to such other Company in accordance with Section 6.

#### Section 5. TAX PAYMENTS AND INTERCOMPANY BILLINGS

5.1 Payment of Taxes With Respect to Distributing Federal Consolidation Returns Filed After the IPO Date. In the case of any Distributing Federal Consolidated Return the due date for which (including extensions) is after the IPO Date:

(a) Computation and Payment of Tax Due. At least three business days prior to any Payment Date, Distributing shall compute the amount of Tax required to be paid to the Internal Revenue Service (taking into account the requirements of Section 4.4 relating to consistent accounting practices) with respect to such Tax Return on such Payment Date and shall pay such amount to the Internal Revenue Service on or before such Payment Date.

(b) Computation and Payment of Controlled Liability With Respect to Tax Due. Within 90 days following any Payment Date, Controlled will pay to Distributing the excess (if any) of --

(i) the Consolidated Tax Liability determined as of such Payment Date with respect to the applicable Tax Period allocable to the members of the Controlled Group as determined by Distributing in a manner consistent with the Section 2.2(a) and Section 3, over

(ii) the cumulative net payment with respect to such Tax Return prior to such Payment Date by the members of the Controlled Group (the "Cumulative Federal Tax Payment").

If the Controlled Group Cumulative Federal Tax Payment is greater

than the Controlled Group Allocated Federal Tax Liability as of any Payment Date, then Distributing shall pay such excess to Controlled within 90 days of Distributing's receipt of the corresponding Tax Benefit (i.e. through either a reduction in Distributing's otherwise required Tax payment or a credit or refund of prior tax payments).

(c) Interest on Intergroup Tax Allocation Payments. In the case of any payments to Distributing required under paragraph (b) of this subsection 5.1, Controlled shall also pay to Distributing an amount of interest computed at the Prime Rate on the amount of the payment required based on the number of days from the applicable Payment Date to the date of

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payment. In the case of any payments by Distributing required under paragraph (b) of this subsection 5.1, Distributing shall also pay to Controlled an amount of interest computed at the Prime Rate on the amount of the payment required based on the number of days from the date of receipt of the Tax Benefit to the date of payment of such amount to Controlled

#### 5.2 Payment of Federal Income Tax Related to Adjustments

(a) Adjustments Resulting in Underpayments. Distributing shall pay to the Internal Revenue Service when due any additional Federal Income Tax required to be paid as a result of adjustment to the Tax liability with respect to any Distributing Federal Consolidated Return. Distributing shall compute the amount attributable to the Controlled Group in accordance with Section 2.2(b) and Controlled shall pay to Distributing any amount due Distributing under Section 2.2(b) within ninety (90) days from the later of (i) the date the additional Tax was paid by Distributing or (ii) the date of receipt by Controlled of a written notice and demand from Distributing for payment of the amount due, accompanied by evidence of payment and a statement detailing the Taxes paid and describing in reasonable detail the particulars relating thereto. Any payments required under this Section 5.2(a) shall include interest computed at the Prime Rate based on the number of days from the date the additional Tax was paid by Distributing to the date of the payment under this Section 5.2(a).

(b) Adjustments Resulting in Overpayments. Within ninety (90) days of receipt by Distributing of any Tax Benefit resulting from any adjustment to the Consolidated Tax Liability with respect to any Distributing Federal Consolidated Return, Distributing shall pay to Controlled, or Controlled shall pay to Distributing (as the case may be), their respective amounts due from or to Distributing as determined by the Responsible Company in accordance with Section 2.2(b). Any payments required under this Section 5.2(b) shall include interest computed at the Prime Rate based on the number of days from the date the Tax Benefit was received by Distributing to the date of payment to Controlled under this Section 5.2(b),

5.3 Payment of State Income Tax With Respect to Returns Filed After the Distribution Date.

(a) Computation and Payment of Tax Due. At least three business days prior to any Payment Date for any Tax Return with respect to any State Income Tax, the Responsible Company shall compute the amount of Tax required to be paid to the applicable Tax Authority (taking into account the requirements of Section 4.4 relating to consistent accounting practices) with respect to such Tax Return on such Payment Date and -

(i) If such Tax Return is with respect to a Consolidated or Combined State Income Tax, the Responsible Company shall, if Distributing is not the Responsible Company with respect to such Tax Return, notify Distributing in writing of the amount of Tax required to be paid on such Payment Date. Distributing will pay such amount to such Tax Authority on or before such Payment Date.

(ii) If such Tax Return is with respect to a Separate Company

Tax, the Responsible Company shall, if it is not the Company liable for the Tax reported on such Tax

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Return under Section 2, notify the Company liable for such Tax in writing of the amount of Tax required to be paid on such Payment Date. The Company liable for such Tax will pay such amount to such Tax Authority on or before such Payment Date.

(b) Computation and Payment of Controlled Liability With Respect To Tax Due. Within ninety (90) days following the due date (including extensions) for filing any Tax Return for any Consolidated or Combined State Income Tax (excluding any Tax Return with respect to payment of estimated Taxes or Taxes due with a request for extension of time to file), (i) Controlled shall pay to Distributing the tax liability allocable to the Controlled Group as determined by the Responsible Company under the provisions of Section 2.3(b), plus interest computed at the Prime Rate on the amount of the payment based on the number of days from the due date (including extensions) to the date of payment by Controlled to Distributing, and (ii) the Responsible Company shall notify Distributing (if Distributing is not the Responsible Company with respect to such Tax Return).

#### 5.4 Payment of State Income Taxes Related to Adjustments.

(a) Adjustments Resulting in Underpayments. Distributing shall pay to the applicable Tax Authority when due any additional State Income Tax required to be paid as a result of any adjustment to the tax liability with respect to any Tax Return for (i) any Consolidated or Combined State Income Tax for any Pre-Distribution Period, and (ii) any Separate Company Tax for any Pre-Distribution Period or portion thereof ending on or before the IPO Date. Controlled shall pay to Distributing its respective share of any such additional Tax payment determined by the Responsible Company in accordance with Section 2.3(c) within ninety (90) days from the later of (i) the date the additional Tax was paid by Distributing or (ii) the date of receipt by Controlled of a written notice and demand from Distributing for payment of the amount due, accompanied by evidence of payment and a statement detailing the Taxes paid and describing in reasonable detail the particulars relating thereto. Controlled shall also pay to Distributing interest on its respective share of such Tax computed at the Prime Rate based on the number of days from the date the additional Tax was paid by Distributing to the date of its payment to Distributing under this Section 5.4(a).

(b) Adjustments Resulting in Overpayments. Within ninety (90) days of receipt by the Distributing Group of any Tax Benefit resulting from any adjustment to the tax liability with respect to any Tax Return for any Consolidated or Combined State Income Tax for any Pre-Distribution Period, Distributing shall pay to Controlled its respective share of any such Tax Benefit determined by the Responsible Company in accordance with Section 2.3(c). Distributing shall also pay to Controlled interest on its respective share of such Tax Benefit computed at the Prime Rate based on the number of days from the date the Tax Benefit was received by the Distributing Group to the date of payment to Controlled under this Section 5.4(b). Similar rules shall apply with respect to the receipt by the Controlled Group of any Tax Benefit resulting from any adjustment to the tax liability with respect to any Tax Return for any Tax Period or portion thereof ending on or before the IPO Date (except any adjustment made pursuant to any Adjustment Request under Section 4.7(c)).

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5.5 Indemnification Payments. If any Company (the "payor") is required to pay to a Tax Authority a Tax that is properly allocated to another Company

(the "responsible party") under this Agreement, the responsible party shall reimburse the payor within ninety (90) days of delivery by the payor to the responsible party of an invoice for the amount due, accompanied by evidence of payment and a statement detailing the Taxes paid and describing in reasonable detail the particulars relating thereto. The reimbursement shall include interest on the Tax payment computed at the Prime Rate based on the number of days from the date of the payment to the Tax Authority to the date of reimbursement under this Section 5.6.

Section 6. TAX BENEFITS. If a member of one Group receives any Tax Benefit with respect to any Taxes for which a member of another Group is liable hereunder, the Company receiving such Tax Benefit shall make a payment to the Company who is liable for such Taxes hereunder within ninety (90) days following receipt of the Tax Benefit in an amount equal to the Tax Benefit (including any Tax Benefit realized as a result of the payment), plus interest on such amount computed at the Prime Rate based on the number of days from the date of receipt of the Tax Benefit to the date of payment of such amount under this Section 6.

#### Section 7. ASSISTANCE AND COOPERATION

7.1 General. After the IPO Date, each of the Companies shall cooperate (and cause their respective Affiliates to cooperate) with each other and with each others agents, including accounting firms and legal counsel, in connection with Tax matters relating to the Companies and their Affiliates including (i) preparation and filing of Tax Returns, (ii) determining the liability for and amount of any Taxes due (including estimated Taxes) or the right to and amount of any refund of Taxes, (iii) examinations of Tax Returns, and (iv) any administrative or judicial proceeding in respect of Taxes assessed or proposed to be assessed. Such cooperation shall include making all information and documents in their possession relating to the other Company and their Affiliates available to such other Company as provided in Section 8. Each of the Companies shall also make available to each other, as reasonably requested and available, personnel (including officers, directors, employees and agents of the Companies or their respective Affiliates) responsible for preparing, maintaining, and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for purposes of providing information or documents in connection with any administrative or judicial proceedings relating to Taxes. Any information or documents provided under this Section 7 shall be kept confidential by the Company receiving the information or documents, except as may otherwise be necessary in connection with the filing of Tax Returns or in connection with any administrative or judicial proceedings relating to Taxes.

7.2 Income Tax Return Information. Each Company will provide to the other Company information and documents relating to their respective Groups required by the other Company to prepare Tax Returns. The Responsible Company shall determine a reasonable compliance schedule for such purpose in accordance with Distributing's past practices. Any additional information or documents the Responsible Company requires to prepare such Tax Returns will be provided in accordance with past practices, if any, or as the Responsible Company reasonably requests and in sufficient time for the Responsible Company to file such Tax Returns on a timely basis.

#### Section 8. TAX RECORDS

8.1 Retention of Tax Records. Except as provided in Section 8.2, each Company shall preserve and keep all Tax Records exclusively relating to the assets and activities of its respective Group for Pre-Distribution Periods, and Distributing shall preserve and keep all other Tax Records relating to Taxes of the Groups for Pre-Distribution Periods, for so long as the contents thereof may become material in the administration of any matter under the Code or other applicable Tax Law, but in any event until the later of (i) the expiration of any applicable statutes of limitation, and (ii) seven years after the Distribution Date. If, prior to the expiration of the applicable statute of limitation and such seven-year period, a Company reasonably determines that any Tax Records which it is required to preserve and keep under this Section 8 are no longer material in the administration of any matter under the Code or other applicable Tax Law, such Company may dispose of such records upon 90 days prior notice to the other Company. Such notice shall include a list of the records to be disposed of describing in reasonable detail each file, book, or other records

being disposed. The notified Company shall have the opportunity, at its cost and expense, to copy or remove, within such 90-day period, all or any part of such Tax Records.

8.2 State Income Tax Returns. Tax Returns with respect to State Income Taxes and workpapers prepared in connection with preparing such Tax Returns shall be preserved and kept in accordance with the terms of Section 8.1, by the Company having liability for the Tax.

8.3 Access to Tax Records. The Companies and their respective Affiliates shall make available to each other for inspection and copying during normal business hours upon reasonable notice all Tax Records in their possession to the extent reasonably required by the other Company in connection with the preparation of Tax Returns, audits, litigation, or the resolution of items under this Agreement.

#### Section 9. TAX CONTESTS

9.1 Notice. Each of the Companies shall provide prompt notice to the other Company of any pending or threatened Tax audit, assessment or proceeding or other Tax Contest of which it becomes aware related to Taxes for Tax Periods for which it is indemnified by the other Company hereunder. Such notice shall contain factual information (to the extent known) describing any asserted Tax liability in reasonable detail and shall be accompanied by copies of any notice and other documents received from any Tax Authority in respect of any such matters. If an indemnified party has knowledge of an asserted Tax liability with respect to a matter for which it is to be indemnified hereunder and such party fails to give the indemnifying party prompt notice of such asserted Tax liability, then (i) if the indemnifying party is precluded from contesting the asserted Tax liability in any forum as a result of the failure to give prompt notice, the indemnifying party shall have no obligation to indemnify the indemnified party for any Taxes arising out of such asserted Tax liability, and (ii) if the indemnifying party is not precluded from contesting the asserted Tax liability in any forum, but such failure to give prompt notice results in a monetary detriment to the indemnifying party, then any amount which the indemnifying

party is otherwise required to pay the indemnified party pursuant to this Agreement shall be reduced by the amount of such detriment.

9.2 Control of Tax Contests. Distributing shall control the defense or prosecution of the portion of the Tax Contest directly and exclusively related to any Distributing Adjustment, including settlement of any such Distributing Adjustment. Controlled shall control the defense or prosecution of the portion of the Tax Contest directly and exclusively related to any Controlled Adjustment, including settlement of any such Controlled Adjustment. The Tax Contest Committee shall control the defense or prosecution of Joint Adjustments, including settlement of any such Joint Adjustment, and any and all administrative matters not directly and exclusively related to any Distributing Adjustment or Controlled Adjustment. The Tax Contest Committee shall be comprised of two persons, one person selected by Distributing (as designated in writing to Controlled) and one person selected by Controlled (as designated in writing to Distributing). Each person serving on the Tax Contest Committee shall continue to serve unless and until he or she is replaced by the party designating such person. Any and all matters to be decided by the Tax Contest Committee shall require the approval of both persons serving on the committee. In the event the Tax Contest Committee shall be deadlocked on any matter, the provisions of Section 15 of this Agreement shall apply. A Company shall not agree to any Tax liability for which another Company may be liable under this Agreement, or compromise any claim for any Tax Benefit which another Company may be entitled under this Agreement, without such other Company's written consent (which consent may be given or withheld at the sole discretion of the Company from which the consent would be required). Distributing, in the case of any examination or audit of a Distributing Federal Consolidation Return, and the Responsible Company in the case of any examination or audit of a Consolidated or Combined State Income Tax Return, shall be the only parties representing the members of the Group before any Federal or State Tax Authority in connection with the examination or audit. Notwithstanding the representation by the

Distributing or Responsible Company before such Tax Authority, the Distributing or Responsible Company shall (a) provide the Controlled with all information reasonably requested relating to any Controlled Adjustment or Joint Adjustment; (b) submit to such Tax Authority any facts, legal arguments or other matters deemed advisable by Controlled and provided by it to Distributing or the Responsible Company; (c) not have the authority to settle or otherwise compromise a Controlled Adjustment; and (d) not have the authority to settle or otherwise compromise a Joint Adjustment other than through the Tax Contest Committee procedures set forth in this Section 9.2.

Section 10. EFFECTIVE DATE. This Agreement shall be effective on the IPO Date.

Section 11. NO INCONSISTENT ACTIONS.

11.1 Action Inconsistent with Ruling Request or Tax Opinion. Each of the Companies covenants and agrees that it will not take any Prohibited Action, and it will cause its Affiliates to refrain from taking any Prohibited Action (within the meaning of Section 11.2), unless the person acting has obtained the prior written consent of each of the other parties (which consent shall not be unreasonably withheld). With respect to any Prohibited Action proposed by a Company (the "Requesting Party"), the other party (the "Requested Party") shall grant its consent to such Prohibited Action if the Requesting Party obtains a ruling with respect to the

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Prohibited Action from the Internal Revenue Service or other applicable Tax Authority that is reasonably satisfactory to the Requested Party.

11.2 Definition of Prohibited Action. The term "Prohibited Action" shall mean any action prohibited under this Section 11.2.

(a) Neither Distributing, Controlled, nor any of their Affiliates shall engage in any action which is inconsistent (or shall fail to take any action to comply) with the Tax treatment of the Distribution as contemplated in the Ruling Request or Tax Opinion, including but not limited to, any action that is inconsistent with (or any failure to take any action necessary to comply with) any representation made in connection with the Ruling request or Tax Opinion.

(b) Prior to completion of the Distribution, Controlled will not issue shares of its stock, and neither Distributing nor Controlled will otherwise take or permit their Affiliates to take any action, that would result in Distributing (or a wholly-owned subsidiary thereof) not being in control of Controlled within the meaning of section 368(c) of the Code.

14.3 Interest Under This Agreement. Anything herein to the contrary notwithstanding, to the extent one Company ("indemnitor") makes a payment of interest to another Company ("Indemnatee") under this Agreement with respect to the period from the date that the indemnitee made a payment of Tax to a Tax Authority to the date that the indemnitor reimbursed the indemnitee for such Tax payment, or with respect to the period from the date that the indemnitor received a Tax Benefit to the date indemnitor paid the Tax Benefit to the indemnitee, the interest payment shall be treated as interest expense to the indemnitor (deductible to the extent provided by law) and as interest income by the indemnitee (includable in income to the extent provided by law). The amount of the payment shall not be adjusted under Section 14.2 to take into account any associated Tax Benefit to the indemnitor or increase in Tax to the indemnitee.

Section 15. DISAGREEMENTS. If after good faith negotiations the parties cannot agree on the application of this Agreement to any matter, then the matter will be referred to a nationally recognized accounting firm acceptable to each of the parties (the "Accounting Firm"). If such dispute relates to a position to be taken on any Tax Return or in any Tax Contest that may affect the interests of both Distributing and Controlled, the Accounting Firm shall resolve such dispute on the basis of the result that a reasonable person owning both Companies would reach. The Accounting Firm shall furnish written notice to the

parties of its resolution of any such disagreement as soon as practical, but in any event no later than 45 days after its acceptance of the matter for resolution. Any such resolution by the Accounting Firm will be conclusive and binding on all parties to this Agreement. In accordance with Section 17, each party shall pay its own fees and expenses (including the fees and expenses of its representatives) incurred in connection with the referral of the matter to the Accounting Firm. All fees and expenses of the Accounting Firm in connection with such referral shall be shared equally by the parties affected by the matter.

Section 16. LATE PAYMENTS. Any amount owed by one party to another party under this Agreement which is not paid when due shall bear interest at the Prime Rate plus two percent, compounded semiannually, from the due date of the payment to the date paid. To the

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extent interest required to be paid under this Section 16 duplicates interest required to be paid under any other provision of this Agreement, interest shall be computed at the higher of the interest rate provided under this Section 16 or the interest rate provided under such other provision.

Section 17. EXPENSES. Except as provided in Section 15, each party and its Affiliates shall bear their own expenses incurred in connection with preparation of Tax Returns, Tax Contests, and other matters related to Taxes under the provisions of this Agreement.

#### Section 18. GENERAL PROVISIONS

18.1 Addresses and Notices. Any notice, demand, request or report required or permitted to be given or made to any party under this Agreement shall be in writing and shall be deemed given or made when delivered in party or when sent by first class mail or by other commercially reasonable means of written communication (including delivery by an internationally recognized courier service or by facsimile transmission) to the party at the party's principal business address. A party may change the address for receiving notices under this Agreement by providing written notice of the change of address to the other parties.

18.2 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

18.3 Waiver. No failure by any party to insist upon the strict performance of any obligation under this Agreement or to exercise any right or remedy under this Agreement shall constitute waiver of any such obligation, right, or remedy or any other obligation, rights, or remedies under this Agreement.

18.4 Invalidity of Provisions. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein shall not be affected thereby.

18.5 Further Action. The parties shall execute and deliver all documents, provide all information, and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement, including the execution and delivery to the other parties and their Affiliates and representatives of such powers of attorney or other authorizing documentation as is reasonably necessary or appropriate in connection with Tax Contests (or portions thereof) under the control of such other parties in accordance with Section 9.

18.6 Integration. This Agreement and the other agreements, including the Distribution Agreement, being entered into concurrently herewith, constitute the entire agreement among the parties pertaining to the subject matter hereof and thereof and supersedes all prior agreements and understandings pertaining thereto.

18.7 Construction. The language in all parts of this Agreement shall in all cases be construed according to its fair meaning and shall not be strictly construed for or against any party.

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18.8 No Double Recovery Subrogation. No provision of this Agreement shall be construed to provide an indemnity or other recovery for any costs, damages, or other amounts for which the damaged party has been fully compensated under any other provision of this Agreement or under any other agreement or action at law or equity. Unless expressly required in this Agreement, a party shall not be required to exhaust all remedies available under other agreements or at law or equity before recovering under the remedies provided in this Agreement. Subject to any limitations provided in this Agreement (for example, the limitation on filing claims for refund in Section 4.7), the indemnifying party shall be subrogated to all rights of the indemnified party for recovery from any third party.

18.9 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument.

18.10 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts executed in and to be performed in that State.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers as of the date first written above.

Daisytek International Corporation

By:

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Name:

Title:

PFSweb, Inc.

By:

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Name:

Title:

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## TRANSITION SERVICES AGREEMENT

This Transition Services Agreement ("Agreement") is entered into on December 7, 1999 between, Incorporated, a Delaware corporation ("Daisytek") and PFSweb, Inc., a Delaware corporation ("PFSweb").

## RECITALS

WHEREAS, Daisytek and PFSweb have entered into that certain Master Separation Agreement (the "Separation Agreement"; terms defined therein having the same meaning when used herein) pursuant to which the PFS Business will be separated from Daisytek; and

WHEREAS, the PFS Business has been operated as a subsidiary of Daisytek, and Daisytek has provided various services to the PFS Business; and

WHEREAS, Daisytek has caused PFSweb to be incorporated in order to effect the separation of the PFS Business; and

WHEREAS, PFSweb desires to continue to obtain various services from Daisytek and Daisytek desires to continue to provide such services;

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

## ARTICLE 1

## DEFINITIONS

Section 1.01. Defined Terms. In addition to the words and terms defined in the Separation Agreement which shall have the same meaning when used herein, the following terms, as used herein, shall have the following meanings:

"Transition Period" means the period commencing on the Contribution Date and ending on the Distribution Date; provided, however, that with respect to any Transition Service, PFSweb may, upon notice to Daisytek, either (i) terminate the Transition Period as of any date prior to the Distribution Date or (ii) extend the Transition Period to a date beyond the Distribution Date, but not later than the one year anniversary date of the Contribution Date.

"Transition Services" means any services provided by Daisytek, its Affiliates or their suppliers to the PFS Business prior to the Contribution Date which PFSweb reasonably identifies and requests in writing that Daisytek provide to it during the Transition Period; provided that Transition Services expressly excludes any such services which shall be provided to PFSweb or its Affiliates pursuant to the terms of any of the Ancillary Agreements; and provided, further that

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Transition Services expressly excludes any such services which Daisytek would not be legally permitted to provide to a third party.

## ARTICLE 2

## TRANSITION SERVICES

Section 2.01. Transition Services.

(a) During the Transition Period, Daisytek shall use its reasonable best efforts to provide, or cause its Affiliates to use their reasonable best efforts to provide, to PFSweb or its Affiliates all Transition Services in the manner and at a relative level of service consistent in all material respects with that provided by Daisytek or its Affiliates to the PFS prior to the Contribution Date. PFSweb shall use all commercially reasonable efforts to obtain all such Transition Services from a source other than Daisytek and its

Affiliates on or prior to the conclusion of the Transition Period; provided that, if PFSweb cannot obtain any Transition Service from a source other than Daisytek and its Affiliates and such Transition Service is necessary in order to operate the PFS Business in substantially the same manner as it was conducted immediately prior to the Contribution Date, then, subject to Section 2.01(e) below, Daisytek (or its Affiliates) shall provide such Transition Service to PFSweb (or its Affiliates) for an additional period not to exceed six months.

(b) In consideration of the provision of Transition Services hereunder, PFSweb shall pay to Daisytek (i) an amount equal to the cost historically allocated to the PFS Business as of the Contribution Date for such service, adjusted to reflect any changes in the nature, cost or level of the services so provided, or (ii) if no such cost has historically been allocated to the PFS Business for any Transition Service, then an amount equal to that portion of the total cost borne by Daisytek which Daisytek would have allocated to the PFS Business under its internal allocation formula as of the Contribution Date, plus any direct user charges or similar type charges resulting from PFSweb's or its Affiliates' use of such services which are not otherwise recouped by Daisytek hereunder, plus, without duplication, any other reasonable charges necessary to make Daisytek whole for the provision of such services.

(c) Except as otherwise agreed, Daisytek shall invoice PFSweb on a monthly basis for the Transition Services to be provided hereunder, and payment shall be due 30 days after invoice date.

(d) Notwithstanding the foregoing, (i) for any Transition Services which include payment of payroll or wages to employees of the PFS Business, PFSweb shall pay all necessary amounts (including payroll taxes) to Daisytek prior to the payment thereof by Daisytek and (ii) any charges to Daisytek from outside suppliers for the provision of Transition Services shall be submitted by Daisytek to PFSweb for payment and, except as Daisytek may otherwise agree in connection with any individual statement of charges which has been submitted to Daisytek, PFSweb hereby agrees to make payment therefor either to such outside supplier in accordance with the payment terms of such outside supplier or to Daisytek if Daisytek is required to pay such

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outside supplier, (in which event such payment shall be made on or before the date on which Daisytek notifies PFSweb it intends to make payment, or if Daisytek does not provide such notice, immediately after Daisytek provides notice to PFSweb that Daisytek has made such payment).

(e) In the event PFSweb shall request Daisytek to continue to provide any Transition Service beyond the expiration of the Transition Period, Daisytek and PFSweb shall negotiate in good faith and at arm's length the terms of any such extension, including fair market value pricing for all such services.

#### Section 2.02. Insurance Coverage.

(a) During the Transition Period, Daisytek shall, subject to insurance market conditions and other factors beyond its control, maintain policies of insurance, including for the benefit of PFSweb or any of its Affiliates, directors, officers, employees or other covered parties (collectively, the "PFSweb Covered Parties") which are comparable to those maintained generally by Daisytek. Except as provided below, during the Transition Period, such policies of insurance shall cover PFSweb Covered Parties for liabilities and losses insured prior to the Contribution Date. To the extent of any self insured or other loss retentions with respect to insurance policies in force, PFSweb shall, during the Transition Period, be solely responsible for any losses, damages and related expenses, not included in Daisytek insurance program expense allocations to PFSweb, incurred by itself or PFSweb Covered Parties within such loss or retentions and shall not seek reimbursement or indemnification thereof from Daisytek.

(b) Daisytek will use all commercially reasonable efforts to assist PFSweb Covered Parties in asserting claims under applicable insurance policies, and shall adjust such policies, as necessary and practicable, to provide for PFSweb and Daisytek recoveries consistent with their respective interests and shall not unduly favor one insured party over another.

(c) PFSweb shall promptly pay or reimburse Daisytek, as the case may be, for premium expenses, and PFSweb Covered Parties shall promptly pay or reimburse Daisytek for any costs and expenses which Daisytek may incur in

connection with the insurance coverages maintained pursuant to this Section, including any subsequent premium adjustments. All payments and reimbursements by PFSweb and PFSweb Covered Parties to Daisytek shall be made in accordance with the payment terms set forth in Section 2.01(c) above.

(d) To the full extent permitted by contract and law, except as otherwise set forth herein, the control and administration of such insurance policies, including claims against insurance policies and any modifications to terms or conditions of insurance policies, shall remain with Daisytek (except that any such action taken by Daisytek shall treat fairly all insured parties and their respective claims and shall not unduly favor one insured party over another). PFSweb and PFSweb Covered Parties shall make all reasonable efforts to facilitate Daisytek's control and administration of such policies.

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(e) Daisytek's insurance policies shall be applicable to PFSweb losses, as follows: (i) with respect to any insurance policies where coverage is provided on a "claims-made" or "occurrences reported" basis, any events, acts or omissions which may give rise to insured losses, or damages which give rise to claims thereunder, must have occurred and notice given to Daisytek prior to expiration of the Transition Period; (ii) with respect to other types of insurance policies, including those provided on an "occurrence" basis, any events, acts or omissions giving rise to any insured losses or damages must have occurred prior to expiration of the Transition Period; and (iii) with respect to all claims under all insurance policies, coverage for events, acts or omissions shall be interpreted consistent with the terms of such policies and the intent of the foregoing clauses (i) and (ii).

(f) With respect to claims covered by the insurance policies described herein, Daisytek and PFSweb shall control the investigation, defense and settlement of all claims; provided, however, that PFSweb may not effect any settlement with respect to any such claim without Daisytek's prior written consent (which consent shall not be unreasonably withheld or delayed) unless such settlement (i) will have no direct impact on Daisytek's future insurance recoveries under relevant insurance policies, and (ii) will require that only PFSweb or PFSweb Covered Parties, and not Daisytek or its insurers, assume financial responsibility for the settlement (under applicable deductibles or self-insured retentions), any related expenses and/or any subsequent premium adjustments.

(g) From and after expiration of the Transition Period, except as provided herein, PFSweb, shall be responsible for obtaining and maintaining insurance programs for its risk of loss and such insurance arrangements shall be separate and apart from Daisytek's insurance programs. Notwithstanding the foregoing, (i) Daisytek, upon the request of PFSweb, shall use all commercially reasonable efforts to assist PFSweb in the transition to its own separate insurance programs from and after the Transition Period, and shall provide PFSweb with any information that is in the possession of Daisytek and is reasonably available and necessary to either obtain insurance coverages for PFSweb or to assist PFSweb in preventing unintended self-insurance, (ii) each of Daisytek and PFSweb, at the request of the other, shall cooperate with and use commercially reasonable efforts to assist the other in recoveries from claims made under any insurance policy for the benefit of any insured party; and (iii) neither Daisytek nor PFSweb, nor any of their Affiliates, shall take any action which would intentionally jeopardize or otherwise interfere with either party's ability to collect any proceeds payable pursuant to any insurance policy.

Section 2.03. Records and Accounts. Daisytek shall maintain accurate records and accounts of all transactions relating to the Transition Services performed by it pursuant to this Agreement. Such records and accounts shall be maintained separately from Daisytek's own records and accounts and shall reflect such information as would normally be examined by an independent accountant in performing a complete audit pursuant to United States generally accepted auditing standards for the purpose of certifying financial statements, and, to the extent required by applicable law, to permit verification thereof by governmental agencies. PFSweb shall have the right to inspect and copy, upon reasonable notice and at reasonable intervals during

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Daisytek's regular office hours, the separate records and accounts maintained by Daisytek relating to the Transition Services.

Section 2.04. Directors and Officers of PFSweb and Daisytek.

(a) Nothing contained in this Agreement shall be deemed to relieve the officers and directors of PFSweb from the performance of their duties or limit the exercise of their powers in accordance with PFSweb's Certificate of Incorporation or the laws of the State of Delaware. The services of Daisytek's officers and employees which are rendered to PFSweb under this Agreement shall at all times be in accordance with the reasonable instructions of PFSweb's officers and in accordance with the historical business practice of the PFS Business.

(b) Nothing in this Agreement shall limit or restrict the right of any of Daisytek's directors, officers or employees to engage in any other business or devote their time and attention in part to the management or other aspects of any other business, whether of a similar nature, or to limit or restrict the right of Daisytek to engage in any other business or to render services of any kind to any corporation, firm, individual, trust or association.

(c) Except as expressly provided as part of any Transition Service hereunder, Daisytek shall have no authority pursuant to this Agreement to commit PFSweb or any of its Affiliates to any obligation in any manner or to use PFSweb's name or to enter into any contract or commitment on behalf of PFSweb.

Section 2.05. Limitation of Liability.

(a) Daisytek shall have no liability whatsoever to PFSweb or any of its Affiliates for any error, act or omission in connection with the Transition Services to be rendered by Daisytek to PFSweb hereunder unless any such error, act or omission derives from willful misconduct or gross negligence. IN NO EVENT SHALL DAISYTEK BE LIABLE FOR ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS, REVENUES OR DATA), WHETHER BASED ON BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, WHETHER OR NOT DAISYTEK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE. THE LIABILITY OF DAISYTEK FOR DAMAGES OR ALLEGED DAMAGES HEREUNDER, WHETHER IN CONTRACT, TORT OR ANY OTHER LEGAL THEORY, IS LIMITED TO, AND WILL NOT EXCEED, PFSWEB'S DIRECT DAMAGES.

(b) Daisytek is an independent contractor and when its employees act under the terms of this Agreement, they shall be deemed at all times to be under the supervision and responsibility of Daisytek; and, notwithstanding any reimbursement of labor costs as provided herein or otherwise, no person employed by Daisytek and acting under the terms of this Agreement shall be deemed to be acting as agent or employee of PFSweb or any customer of PFSweb for any purpose whatsoever.

ARTICLE 3

MISCELLANEOUS

Section 3.01. Entire Agreement. This Agreement, including all the Ancillary Agreements, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

Section 3.02. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware regardless of the laws that might otherwise govern under principles of conflicts of laws applicable thereto.

Section 3.03. Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 3.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by telecopy with answer back, by express or overnight mail delivered

by a nationally recognized air courier (delivery charges prepaid), or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at their chief executive offices, or to such other address as the party to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any notice or communication delivered in person shall be deemed effective on delivery. Any notice or communication sent by telecopy or by air courier shall be deemed effective on the first Business Day at the place at which such notice or communication is received following the day on which such notice or communication was sent. Any notice or communication sent by registered or certified mail shall be deemed effective on the fifth Business Day at the place from which such notice or communication was mailed following the day on which such notice or communication was mailed.

Section 3.05. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their legal representatives and successors, and each Subsidiary and each Affiliate of the parties hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except as otherwise expressly provided herein. Except as otherwise expressly set forth herein, this Agreement may not be assigned or transferred to any other unaffiliated Person without the prior written consent of each of the parties hereto.

Section 3.06. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

Section 3.07. Dispute Resolution. Resolution of any and all disputes arising from or in connection with this Agreement, whether based on contract, tort, or otherwise (collectively,

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"Disputes"), shall be exclusively governed by and settled in accordance with the provisions of this Section. The parties hereto shall use all commercially reasonable efforts to settle all Disputes without resorting to mediation, arbitration, litigation or other third party dispute resolution mechanisms. If any Dispute remains unsettled, a party hereto may commence proceedings hereunder by first delivering a written notice from a Senior Vice President or comparable executive officer of such party (the "Demand") to the other parties providing a reasonable description of the Dispute to the others and expressly requesting mediation hereunder. The parties hereby agree to submit all Disputes to non-binding mediation before a mediator reasonably acceptable to all parties involved in such Dispute. If the parties are unable to agree upon a mediator or if, after such mediation, the parties subject to such mediation disagree regarding the mediator's recommendation, such Dispute shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in Dallas, Texas by three arbitrators acting by majority vote (the "Panel") selected by agreement of the parties, or, failing such agreement, appointed pursuant to the commercial arbitration rules of the American Arbitration Association, as amended from time to time (the "AAA Rules"). If an arbitrator so selected becomes unable to serve, his or her successors shall be similarly selected or appointed. The arbitration shall be conducted pursuant to the Federal Arbitration Act and such procedures as the parties subject to such arbitration (each, a "Party") may agree, or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing: (i) each Party shall have the right to inspect the books and records of the other Party that are reasonably related to the Dispute; (ii) each Party shall provide to the other, reasonably in advance of any hearing, copies of all documents which a Party intends to present in such hearing; and (iii) each Party shall be allowed to conduct reasonable discovery through written requests for information, document requests, requests for stipulation of fact and depositions, the nature and extent of which discovery shall be determined by the Parties; provided that if the Parties cannot agree on the terms of such discovery, the nature and extent thereof shall be determined by the Panel which shall take into account the needs of the Parties and the desirability of making discovery expeditious and cost effective. The award shall be in writing and shall specify the factual and legal basis for the award. The Panel shall apportion all costs and expenses of arbitration, including the Panel's fees and expenses and fees and expenses of experts, between the prevailing and non-prevailing Party as the Panel deems fair and reasonable. The parties hereto agree that monetary damages may be inadequate and that any party by whom this Agreement is enforceable shall be entitled to

seek specific performance of the arbitrators' decision from a court of competent jurisdiction, in addition to any other appropriate relief or remedy. Notwithstanding the foregoing, in no event may the Panel award consequential, special, exemplary or punitive damages. Any arbitration award shall be binding and enforceable against the parties hereto and judgment may be entered thereon in any court of competent jurisdiction.

Section 3.08. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an

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acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

Section 3.09. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 3.10. Amendment. No change or amendment will be made to this Agreement except by an instrument in writing signed on behalf of each of the parties to be bound by such change or amendment.

Section 3.11. Authority. Each of the parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate or other action, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

Section 3.12. Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When a reference is made in this Agreement to an Article or a Section, such reference shall be to an Article or Section of this Agreement unless otherwise indicated.

[remainder of page is blank]

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IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

DAISYTEK, INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

PFSWEB, INC.

By:

-----  
Name:  
Title:

## TRANSACTION MANAGEMENT SERVICES AGREEMENT

THIS AGREEMENT is dated as of December 7, 1999 and is by and between PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("PFS") having an address at 500 North Central Expressway, Plano, Texas 75074, and DAISYTEK, INC., a Delaware corporation ("DZTK") having an address at 500 North Central Expressway, Plano, Texas 75074.

PFS provides various transaction management services, including Web order processing, inbound call handling, order entry, warehousing and distribution, credit management and collection and information management, to manufacturers, resellers and marketers of products.

DZTK wishes to retain PFS to provide the transaction management services described herein.

IN CONSIDERATION of the mutual covenants contained herein, the parties agree as follows:

1. Statement of Work; Products. During the term of this Agreement, and subject to the terms and conditions set forth herein, PFS will provide the transaction management services described in one or more Statement(s) of Work (a "Statement of Work") as shall be mutually agreed from time to time. Each Statement of Work may be amended, modified or revised by mutual agreement of the parties from time to time during the term of this Agreement, although neither party has any obligation to agree to any amendment, modification or revision. PFS will provide its services with respect to various products designated by DZTK (the "Products"), provided, however, that the type, nature, dimensions, etc., of the Products shall be set forth in a Statement of Work. Upon mutual agreement, the type or nature of the Products may be modified during the term of this Agreement.

2. Distribution Center. During the term of this Agreement, and as more fully set forth in a Statement of Work, Products will be shipped by, or on behalf of, DZTK to, and stored by PFS at, the PFS distribution center(s) identified in a Statement of Work (the "Distribution Center"). DZTK is responsible for all freight, handling and importation costs in delivering the Products to the Distribution Center. DZTK is responsible for administering and managing the shipment and delivery of Products to the Distribution Center and will provide PFS with prior notice and rolling projections of Product shipments and deliveries as described in a Statement of Work. PFS will unpack and store all Products delivered to the Distribution Center in accordance with the terms of a Statement of Work. Except as otherwise set forth in a Statement of Work, PFS has no liability for in-bound or out-bound freight or shipping costs.

3. Sales and Marketing. DZTK is responsible for all sales and marketing of Products. Except as expressly set forth in the Statement of Work in connection with the services to be provided by it hereunder, PFS shall not be deemed an agent or representative of DZTK, nor shall PFS have any authority to make any representation or commitment on the part of DZTK. For all purposes, DZTK, and not PFS, shall be deemed the seller of all Products to customers. DZTK shall retain title to all Products and PFS shall not be deemed a consignee of any Products, nor shall PFS pledge, encumber or

grant any security interest in or to the Products at any time. DZTK shall at all times comply with all applicable laws, rules and regulations in respect of its sales and marketing of Products.

4. Information; Exceptions. DZTK will provide PFS with all information reasonably necessary for PFS to perform its obligations hereunder, including information regarding the Products, part numbers, descriptions, costs, pricing, documentary requirements, technical information, call center scripts, customer and credit guidelines and limits, returns criteria and similar information, including Product training, etc. PFS has no responsibility with respect to the adequacy, accuracy or validity of any information, guidelines, limits or criteria provided by DZTK to it hereunder. In performing its services hereunder,



PFS shall act in accordance with, and shall be entitled to rely upon, the instructions and authorizations received from DZTK, including all customer, credit, shipping, allocation, pricing and other information and instruction as shall be provided to PFS hereunder.

5. Sales Tax. Except as set forth in the Statement of Work, PFS shall have no liability for the payment, collection or remittance to the proper authorities, of all sales tax, use tax or other tax arising from the sale of Products to customers, the storage of Products in the Distribution Center or the shipment of Products to or from any jurisdiction, and DZTK shall indemnify and hold PFS harmless in respect thereof (including any costs incurred by PFS in connection with any audit or inquiry of any taxing authority). DZTK is responsible to determine the applicable taxing jurisdictions arising in connection with the sale of Products and for providing PFS with copies of any resale certificates or other documentation as may be required by PFS to perform its services hereunder.

6. Insurance; Shrinkage. PFS shall provide insurance for all Products stored in the Distribution Center. Such insurance (which may include self-insurance) shall cover damage, destruction, theft and other risks as shall be set forth in the Statement of Work. DZTK shall provide PFS with all information necessary for such insurance. PFS shall provide DZTK with a certificate of insurance and, upon request, will provide for not less than ten days' prior notice of nonrenewal or cancellation. PFS shall perform its services hereunder in accordance the performance standards set forth in the Statement of Work and the ordinary level of care it provides its customers. Subject to the applicable terms of the Statement of Work, in the event of any loss or damage to Products arising from the failure of PFS to provide such level of care, PFS shall, as its sole liability, reimburse DZTK for the actual cost of such lost or damaged Products.

7. Returns. All sales of Products shall be subject to the then prevailing return policies of DZTK. DZTK shall at all times be solely responsible for any credits or other amounts payable to customers, and PFS shall have no responsibility to return, rebate or refund any portion of any fee received by it hereunder in respect thereof. All returns shall be administered in accordance with the terms set forth in the Statement of Work. In the event any return is the result of a misshipment or error on the part of PFS, PFS shall, as its sole liability, be responsible for all return freight for such Product.

8. Service Fees. DZTK shall pay to PFS the service fees and other amounts described in the Statement of Work. All fees and other amounts shall be payable in accordance with the payment and invoice terms set forth in the Statement of Work.

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9. Pricing Modification. The service fees payable hereunder are based upon the assumptions regarding the scope of work set forth in the Statement of Work. The Statement of Work contains a list of certain key assumptions and certain parameters regarding acceptable deviations from these assumptions. In the event that, for any month (calculated on an annualized basis), the operations of DZTK (and the scope of work provided by PFS in respect of such operations) are outside these parameters, PFS shall notify DZTK of such event and the modification of the fees payable hereunder which PFS shall propose as a result thereof. Such fee modification proposal shall be based upon, but not limited to, the increase or other material change in the scope of work and services to be provided by PFS arising from the deviation from the aforesaid assumptions. DZTK shall then have a period of 30 days (or such longer period as shall be reasonable under the circumstances) to restore its operations to within the aforesaid parameters. If DZTK is successful in doing so, as determined (on an annualized basis) during the month (or such longer period as shall be reasonable under the circumstances) following such cure period, then the proposed fee modification shall not go into effect. If DZTK is unsuccessful in doing so (as determined as aforesaid), then the proposed fee modification shall go into effect for all succeeding months until DZTK shall restore its operations to within the aforesaid parameters for two consecutive months. Notwithstanding the foregoing, the parties agree to use their respective best efforts to negotiate in good faith any proposed fee modification, and either party may

request that any proposed fee modification be submitted to non-binding mediation. In addition, following the second anniversary of the date hereof, if PFS' costs in providing its services hereunder have increased by more than 5% (on an annual basis) from the prior year, PFS may propose, by written notice to DZTK, a modification of the fees payable hereunder. Such fee modification proposal shall be based upon, but not limited to, the increase or other material change in PFS' costs and shall be accompanied by a reasonable description of such increased costs. The parties agree to use their respective best efforts to negotiate in good faith any proposed fee modification, and either party may request that any proposed fee modification be submitted to non-binding mediation. If the parties are unable to agree upon any such proposed fee modification, and within 30 days thereafter, PFS shall elect to terminate this Agreement without cause (as provided in Section 12 below) and shall deliver the requisite termination notice, then, in such event, PFS shall be deemed to have delivered such termination notice as of the date of its delivery of its proposed fee modification.

10. Trademark. DZTK represents that it has a valid and effective license and right to use all trademarks, tradenames and logos which appear on the Products and to sell the Products to its customers and shall continue to have such rights during the term of this Agreement, free of any claim of infringement or unlawful use, and DZTK shall indemnify and hold PFS harmless in respect of all matters arising in connection therewith.

11. Confidentiality. Each party acknowledges that in implementing and performing this Agreement each party shall disclose and make available to the other certain confidential and proprietary information, including without limitation, customer and Product information. Each party agrees to utilize such information solely for the purpose of this Agreement and to keep and maintain all such information as confidential. The provisions of this Section shall survive any termination or non-renewal of this Agreement. This Section shall not apply to any information (i) which (without violation of this Section) is or becomes generally known in the industry or (ii) which is provided by a third party without violation by such third party of any obligation of non-disclosure.

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Each party may disclose the existence of this Agreement (but not its terms), the identity of the parties hereto and the general nature of the Products.

12. Term. This Agreement shall be in effect for a five year term commencing from the date of execution hereof and shall be automatically renewed for successive one year periods thereafter unless either party shall give notice in writing of non-renewal not less than 180 days prior to any termination date. In the event either party shall breach any of the terms or provisions of this Agreement, and such breach shall not be cured within 30 days after notice, the non-breaching party shall have the right to terminate this Agreement upon ten days written notice. In addition (i) DZTK may terminate this Agreement, without cause, upon 180 days prior written notice, (ii) PFS may terminate this Agreement, without cause, upon 365 days prior written notice (subject to the provisions of Section 9 above regarding the date upon which such notice shall be deemed to have been given in the event of a proposed fee modification) and (iii) within 30 days following the effective date of any "Change in Control" of DZTK, PFS may, upon 90 days prior written notice, terminate this Agreement. As used herein, a "Change in Control" shall be deemed to occur upon (i) any sale or transfer of all or substantially all of the assets of DZTK or (ii) the acquisition by any party (or group of related parties) (other than a financial institution, mutual fund or other party holding shares for investment purposes), whether in one transaction or a series of related transactions, of 25% or more of the issued and outstanding shares of capital stock of DZTK. Any termination of this Agreement shall not affect any obligations of any party incurred or arising prior to such termination. During the applicable period following the giving of any notice of nonrenewal, or termination without cause, the parties shall continue to fully perform all of their respective obligations hereunder and shall cooperate with each other in order to effect an orderly winding down and transition. DZTK is solely responsible, at its cost and expense, to remove all Products and other DZTK property from the Distribution Center on or prior to the effective date of termination of this Agreement. DZTK shall reimburse PFS for all reasonable costs and expenses incurred by PFS in assisting DZTK with such removal efforts. In addition, in the event DZTK shall terminate this Agreement without cause, DZTK shall pay to PFS the Termination Fee set forth in

the Statement of Work.

13. Indemnification; Limitation of Liability. Each party agrees to indemnify, defend and hold the other harmless from and against and in respect of any and all costs, expenses (including without limitation, attorneys fees and litigation and investigation costs), losses, damages and claims arising from, in connection with or relating to (i) any actual or alleged infringement or misappropriation by the indemnifying party of any patent, copyright, trademark, service mark, tradename, trade secret or any other intellectual property right of any other party (whether domestic or foreign), (ii) any failure by the indemnifying party to comply with or breach of any governmental, regulatory, judicial or municipal law, rule, regulation, decision, order, directive, ordinance or ruling of any kind or (iii) any product liability, personal injury or property damage claim of any kind or any negligence or misconduct on the part of the indemnifying party; provided, however, that, notwithstanding anything contained herein, no party shall be liable for consequential damages of any kind (even if advised of the possibility or likelihood thereof) or any punitive damages in connection with any claim or matter arising under or in connection with this Agreement. Except as expressly set forth herein or in the Statement of Work, no party makes any

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representation or warranty of any kind. The provisions of this Section shall survive any termination or non-renewal of this Agreement.

14. Restrictive Covenant. PFS covenants and agrees that, during the term of this Agreement, it will not, on its own behalf, engage in the business of selling or distributing, on a wholesale basis, any Products. The foregoing shall not apply to (i) the provision by PFS of transaction management services to third parties who may be engaged in the business of selling or distributing, on a wholesale basis, any Products or (ii) any existing arrangements to which PFS may be a party on the date hereof (and any modifications, supplements or amendments thereto arising after the date hereof).

15. Miscellaneous. Each party to this Agreement is an independent contractor and this Agreement does not create a joint venture or partnership of any kind, nor shall this Agreement give rise to any fiduciary duty on the part of any party to any other party. Except as contemplated herein, no party shall have the authority to represent, warrant or bind any other party. This Agreement, and the rights, powers and duties set forth herein, shall bind and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement may not be assigned or delegated to any unaffiliated third party. This Agreement may only be amended, modified or waived by an instrument in writing duly executed and delivered by each of the parties hereto to be bound by such amendment, modification or waiver. This agreement (and the Statement of Work hereto) sets forth the entire understanding and agreement of the parties and supersedes any prior agreement. The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver thereof, and any waiver of any term or provision hereof shall not be construed as a waiver of any other term or provision. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall be deemed one and same instrument. In the event that any one or more of the provisions of this Agreement shall be determined to be void or unenforceable by a court of competent jurisdiction or by law, such determination shall not render this Agreement invalid or unenforceable and the remaining provisions hereof shall remain in full force and effect. All notices hereunder shall be in writing and shall be effective upon receipt at each party's address for notice set forth herein. EACH PARTY WAIVES TRIAL BY JURY.

15. Arbitration. Any and all disputes arising hereunder shall, upon the request of either party, be submitted to binding arbitration in Dallas, Texas, in accordance with the rules and regulations of the American Arbitration Association and each party agrees that (i) all notices and service of process in respect thereof may be delivered or served at the address for notice set forth herein, (ii) each party consents and submits to the jurisdiction of said arbitration and to the state and federal courts of the State of Texas for the

purpose of enforcing the provisions of this Agreement and entering and judgment in respect thereof and (iii) the foregoing shall not preclude the joinder of any party in respect of any third party claim or the pursuit of equitable remedies.

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IN WITNESS WHEREOF, the parties hereto, being duly authorized, have executed and delivered this Agreement as of the day and year above written.

PRIORITY FULFILLMENT SERVICES, INC.

By: \_\_\_\_\_  
Name:  
Title:

DAISYTEK, INC.

By: \_\_\_\_\_  
Name:  
Title:

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<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF DAISYTEK INTERNATIONAL CORPORATION AND SUBSIDIARIES FOR NINE MONTHS ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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