

FORM 10-Q/A
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

☒ [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2001

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-28275

PFSWEB, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

75-2837058

(State of Incorporation)

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

500 NORTH CENTRAL EXPRESSWAY, PLANO, TEXAS

75074

(Address of principal executive offices)

(Zip Code)

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

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

Yes X No
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At November 3, 2001 there were 18,057,109 shares of registrant's common stock outstanding.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

EXHIBIT NO. -----	DESCRIPTION OF EXHIBITS -----
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1**	Inventory and Working Capital Financing Agreement by and among Business Supplies Distributors Holdings, LLC, BSD Acquisition Corp., Priority Fulfillment Services, Inc., PFSweb, Inc., Inventory Financing Partners, LLC and IBM Credit Corporation
10.2**	Collateralized Guaranty by and between Priority Fulfillment Services, Inc. and IBM Credit Corporation
10.3**	Guaranty to IBM Credit Corporation by PFSweb., Inc.
10.4**	Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., BSD Acquisition Corp., and IBM Credit Corporation
10.5**	Stock Purchase Agreement by and among Daisytek, Incorporated, BSD Acquisition Corp., Priority Fulfillment Services, Inc., PFSweb, Inc. and Priority Fulfillment Services Europe B.V.
10.6**	Operating Agreement of Business Supplies Distributors Holdings, LLC
10.7**	IBM Global Financing Platinum Plan Agreement (with Invoice Discounting) by and among Supplies Distributors S.A., Business Supplies Distributors Europe B.V., PFSweb B.V., and IBM Belgium Financial Services S.A.
10.8**	Collateralized Guaranty between Priority Fulfillment Services, Inc. and IBM Belgium Financial Services S.A.
10.9**	Guaranty to IBM Belgium Financial Services S.A. by PFSweb, Inc.
10.10**	Subordinated Demand Note by and among BSD Acquisition Corp. and Priority Fulfillment Service, Inc.

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

** Filed herewith

b) Reports on Form 8-K:

Form 8-K filed on July 13, 2001 reporting Item 8, Change in Fiscal Year, that on June 28, 2001 PFSweb, Inc. (the "Company") changed its fiscal year from March 31 to December 31.

SIGNATURES

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

Date: November 16, 2001

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

INDEX TO EXHIBITS

EXHIBIT NO.
DESCRIPTION -

----- 3.1*
Amended and
Restated
Certificate
of
Incorporation
3.2* Amended
and Restated
Bylaws 10.1**
Inventory and
Working
Capital
Financing
Agreement by
and among
Business
Supplies
Distributors
Holdings,
LLC, BSD
Acquisition
Corp.,
Priority
Fulfillment
Services,
Inc., PFSweb,
Inc.,
Inventory
Financing
Partners, LLC
and IBM
Credit
Corporation
10.2**
Collateralized
Guaranty by
and between
Priority
Fulfillment
Services,
Inc. and IBM
Credit
Corporation
10.3**
Guaranty to
IBM Credit
Corporation
by PFSweb.,
Inc. 10.4**
Notes Payable
Subordination
Agreement by
and between
Priority
Fulfillment
Services,
Inc., BSD
Acquisition
Corp. and IBM
Credit
Corporation
10.5** Stock
Purchase
Agreement by
and among
Daisytek,
Incorporated,
BSD
Acquisition
Corp.,
Priority
Fulfillment
Services,
Inc., PFSweb,
Inc. and
Priority
Fulfillment
Services

Europe B.V.
10.6**
Operating
Agreement of
Business
Supplies
Distributors
Holdings, LLC
10.7** IBM
Global
Financing
Platinum Plan
Agreement
(with Invoice
Discounting)
by and among
Supplies
Distributors,
S.A.,
Business
Supplies
Distributors
Europe B.V.,
PFSweb B.V.,
and IBM
Belgium
Financial
Services S.A.
10.8**
Collateralized
Guaranty
between
Priority
Fulfillment
Services,
Inc. and IBM
Belgium
Financial
Services S.A.
10.9**
Guaranty to
IBM Belgium
Financial
Services S.A.
by PFSweb,
Inc. 10.10**
Subordinated
Demand Note
by and among
BSD
Acquisition
Corp. and
Priority
Fulfillment
Service, Inc.

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

** Filed herewith

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC
BSD ACQUISITION CORP.
PRIORITY FULFILLMENT SERVICES, INC.
PFSWEB, INC.
INVENTORY FINANCING PARTNERS, LLC

INVENTORY AND WORKING CAPITAL FINANCING AGREEMENT

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INVENTORY AND WORKING CAPITAL
FINANCING AGREEMENT

This INVENTORY AND WORKING CAPITAL FINANCING AGREEMENT (as amended, supplemented or otherwise modified from time to time, this "Agreement") is hereby made this ____ day of September, 2001, by and among IBM CREDIT CORPORATION, a Delaware corporation with a place of business at 4000 Executive Parkway, Third Floor, San Ramon, CA 94583 ("IBM Credit"), BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC, a limited liability company duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("Holdings"), INVENTORY FINANCING PARTNERS, LLC, a limited liability company duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("IFP"), BSD ACQUISITION CORP., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("Borrower"), PRIORITY FULFILLMENT SERVICES, INC., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("PFS") and PFSWEB, INC., a corporation duly organized under the laws of the state of Delaware, with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("PFSweb") (Borrower, Holdings, IFP, PFS, PFSweb, and any other entity that executes any Other Document, including without limitation all Guarantors, are each individually referred to as a "Loan Party" and collectively referred to as "Loan Parties").

WITNESSETH

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

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

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

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

SECTION 1. DEFINITIONS; ATTACHMENTS

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

"A/R Advance": any loan or advance of funds made by IBM Credit to or on behalf of Borrower pursuant to Section 2.3 of this Agreement, including, as the context may require, a WCO Advance and a PRO Advance.

"A/R Advance Date": the Business Day on which IBM Credit makes an A/R Advance under this Agreement.

"A/R Advance Term": for each A/R Advance, a period of one hundred eighty (180) days commencing on the A/R Advance Date for such A/R Advance.

"A/R Finance Charges": as defined on Attachment A.

"Account Debtor": shall mean any Person required to make payment to Borrower or to PFS, on account of Borrower, for the purchase of Product or any other Person who has a debt obligation owing to Borrower.

"Accounts": as defined in the U.C.C and all now existing and/or hereafter created or arising accounts receivable of Borrower arising from the sale of Product, including any interest, finance charges and other amounts payable with respect thereto. The foregoing shall not include the Acquired Accounts.

"Acquired Accounts": the BSD Accounts that the Borrower acquired from BSD as the result of the merger described in the Merger Documents immediately following the closing under the Daisytek Stock Purchase Agreement.

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

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

"Agreement": as defined in the caption.

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

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

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

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

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

"Bank": as defined in Section 3.3.

"Borrower": as defined in the caption.

"Borrower Stock Pledge Agreement": the Stock Pledge Agreement dated the date hereof (or such other date as IBM Credit may agree) between Borrower and IBM Credit.

"Borrowing Base": as defined in Attachment A.

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

"BSD": means Business Supplies Distributors, Inc.

"BSD Account Debtors": any Person required to make payment in respect to the Acquired Accounts.

"BSD Accounts": the Accounts (as defined in the UCC) of Business Supplies Distributors, Inc.

"BSD Companies": means BSD, Business Supplies Distributors Europe B.V. and BSD (Canada) Inc.

"BSD Europe": means Supplies Distributors, S.A.

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

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

"Collateral": as defined in Section 4.1.

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

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

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

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

"Concentration Accounts": an Eligible Account or Eligible Acquired Account that, individually, or when aggregated with all other outstanding Accounts and Acquired Accounts of the same account debtor and such account debtor's Affiliates, constitute more than five percent (5%) of the net outstanding balance of all

Eligible Accounts and Eligible Acquired Accounts of the Borrower then outstanding for all Account Debtors and BSD Account Debtors.

"Concentration Account Debtor": at any time, any Account Debtor or BSD Account Debtor obligated to Borrower with respect to, or on account of, a Concentration Account.

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

"Credit Line": as defined in Section 2.1.

"Daisytek": shall mean Daisytek, Inc.

"Daisytek Stock Purchase Agreement": shall mean the Stock Purchase Agreement dated September 25, 2001 among Daisytek, the Borrower, and PFS.

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

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

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

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

"Eligible Accounts": as defined in Section 3.1(A).

"Eligible Acquired Accounts": as defined in Section 3.1(B).

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

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

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

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

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

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

"Floor Plan Lender": any Person who now or hereinafter provides inventory financing to Borrower, provided that such Person executes an Intercreditor Agreement (as defined in Section 5.1 of this Agreement) or a subordination agreement with IBM Credit each in form and substance satisfactory to IBM Credit.

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

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

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

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

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

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

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

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

"Holdings Stock Pledge Agreement": as defined in Section 5.1(R).

"IBM Credit": as defined in the caption.

"Indebtedness": with respect to any Person, (1) all obligations of such Person for borrowed money or for the deferred purchase price of property or services (other than trade liabilities incurred in the ordinary course of

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

"Intellectual Property": as defined in Section 6.14.

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

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

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

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

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

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

"Loan Parties": as defined in the caption.

"Lockbox": as defined in Section 3.3.

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

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

"Merger Documents": shall mean the (i) Agreement and Plan of Merger and Reorganization among Borrower and BSD dated September 25, 2001 and (ii) the Certificate of Merger of BSD with and into Borrower dated September 25, 2001;

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

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

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

"Other Documents": all security agreements, mortgages, leases, instruments, documents, guarantees, schedules of assignment, contracts and similar agreements executed by any Loan Party and delivered to IBM Credit, pursuant to this Agreement, including, without limitation, the collateralized guaranty executed by Holdings in favor of IBM Credit, the collateralized guaranty executed by PFS in favor of IBM Credit, the corporate guaranty executed by PFSweb in favor of IBM Credit, the notes payable subordination agreement between IBM Credit and PFS, the Holdings Stock Pledge Agreement, the Borrower Stock Pledge Agreement and all amendments, supplements and other modifications to the foregoing from time to time.

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

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

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

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

"PBGC": as defined in Section 6.12.

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

(1) Indebtedness to IBM Credit;

(2) Indebtedness of BSD Europe to IBM Nederland Financieringen B.V. ("INF") and the guaranty thereof by Holdings in a principal amount not to exceed the lesser of (a) 17,000,000 Euros and (b) the amount of the credit line between BSD Europe and INF;

(3) Indebtedness described in Section VIII of Attachment B;

- (4) Indebtedness to any Floor Plan Lender;
- (5) Purchase Money Indebtedness;
- (6) guaranties in favor of IBM Credit;
- (7) other Indebtedness consented to by IBM Credit in writing prior to incurring such Indebtedness; and
- (8) unsecured Indebtedness in respect of any interest rate protection, future, option, swap, cap or hedge agreement or arrangement under which any Loan Party is a party or beneficiary.

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

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

(11) Liens arising pursuant to this Agreement; and

(12) other Liens in favor of any Affiliate of IBM Credit or otherwise consented to by IBM Credit in writing prior to incurring such Lien.

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

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

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

"PFSweb": as defined in the caption.

"Plans": as defined in Section 6.12.

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

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

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

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

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

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

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

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

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

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

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

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

"Request for A/R Advance": as defined in Section 2.3.

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

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

"Shortfall Amount": as defined in Section 2.6.

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

"Special Account": as defined in Section 3.3.

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

"Supplier Credits": as defined in Section 2.2.

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

"Termination Date": shall mean One Hundred Twenty (120) days from the date of this Agreement or such other date as IBM Credit and Loan Parties may agree to in writing from time to time.

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

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

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

"WCO Advance": an A/R Advance, with a WCO Advance Term.

"WCO Advance Term": for each WCO Advance, a period of one hundred eighty (180) days commencing on the A/R Advance Date for such WCO Advance.

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

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

SECTION 2. CREDIT LINE/FINANCE CHARGES/OTHER CHARGES

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

2.2. PRODUCT ADVANCES. (A) Subject to the terms and conditions of this Agreement, IBM Credit shall make Product Advances in connection with Borrower's purchase of Products from Authorized Suppliers upon at least a two-day prior written notice from Authorized Suppliers. Borrower hereby authorizes and directs IBM Credit to pay the proceeds of Product Advances directly to the applicable Authorized Supplier in respect of invoices delivered to IBM Credit for such Products by such Authorized Supplier and acknowledges that (i) any delivery to IBM Credit of an invoice by an Authorized Supplier shall be deemed as a request for a Product Advance by Borrower, and (ii) each such Product Advance constitutes a loan by IBM Credit to Borrower pursuant to this Agreement as if the Borrower received the proceeds of the Product Advance directly from IBM Credit. IBM Credit may, upon written notice to Borrower, cease to include a supplier as an Authorized Supplier.

(B) No finance charge shall accrue on any Product Advance during the Free Financing Period, if any, applicable to such Product Advance. Each Product Advance shall be due and payable on the Common Due Date for such Product Advance. Borrower may at its option, repay each Product Advance by requesting IBM Credit to apply all or any part of the principal amount of an A/R Advance to the Outstanding Product Advances. Borrower's request for such application shall be made in accordance with Section 2. When so requested and subject to the terms and conditions of this Agreement, IBM Credit shall apply the amount so requested to the amounts due in respect of the Outstanding Product Advances. Nothing contained herein shall relieve Borrower of its obligation to repay Product Advances when due. Each Product Advance shall accrue a finance charge on the Average Daily Balance thereof from and including the first (1st) day following the end of the Free Financing Period, if any, for such Product Advance, or if no such Free Financing Period shall be in effect, from and including the date of invoice for such Product Advance, in each case, to and including the date such Product Advance shall become due and payable in accordance with the terms of this Agreement, at a per annum rate equal to the lesser of (a) the finance charge set forth in Attachment A to this Agreement as the "Product Financing Charge" and (b) the highest rate from time to time permitted by applicable law.

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

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

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

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

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

2.3. A/R ADVANCES. (A) Whenever Borrower shall desire IBM Credit to provide an A/R Advance, Borrower shall deliver to IBM Credit written notice of Borrower's request for such an Advance ("Request for A/R Advance"). For any requested A/R Advance pursuant to which monies will be disbursed to Borrower or any Person other than IBM Credit, a Request for A/R Advance shall be delivered to IBM Credit on or prior to 1:00 p.m. (eastern time) one Business Day prior to the requested A/R Advance Date. The Request for A/R Advance shall specify (i) the requested A/R Advance Date; (ii) the amount of the requested A/R Advance; (iii) whether such A/R Advance is a WCO Advance or a PRO Advance; (iv) if applicable, the PRO Advance Term for such A/R Advance; (v) for each PRO Advance, the month, day and year of the Common Due Date, as set forth in Borrower's applicable billing statement from IBM Credit, for the Product Advance to which the PRO Advance is to be applied; and (vi) if applicable, the amount of the requested A/R Advance that should be applied to the Outstanding Product Advances (provided that all PRO Advances shall be applied to Outstanding Product Advances). Borrower may deliver a Request for A/R Advance via facsimile. Any Request for A/R Advance delivered to IBM Credit shall be irrevocable. Notwithstanding any other provision of this Agreement, Borrower shall not (i) request more than one PRO

Advance in respect of any Product Advance; and (ii) request a PRO Advance for any Common Due Date on which Borrower will take a discount offered by IBM Credit for invoice amounts paid in full within fifteen days of the invoice date under IBM Credit's High Turnover Option ("HTO") Program.

(B) Subject to the terms and conditions of this Agreement, on the A/R Advance Date specified in a Request for A/R Advance, IBM Credit shall make the principal amount of each A/R Advance available to the Borrower in immediately available funds to an account maintained by Borrower. If IBM Credit is making an A/R Advance hereunder on a day on which Borrower is to repay all or any part of an Outstanding Advance (or any other amount owing hereunder), IBM Credit shall apply the proceeds of the A/R Advance to such repayment and only an amount equal to the difference, if any, between the amount of the A/R Advance and the amount being repaid shall be made available to Borrower as provided in the immediately preceding sentence. With respect to the WCO Advances made by IBM Credit on the Closing Date, the Borrower hereby authorizes and directs IBM Credit to pay the proceeds of such WCO Advance directly to IBM ("IBM Payment"). Such WCO Advance constitutes a loan by IBM Credit to Borrower pursuant to this Agreement as if the Borrower receives the proceeds of such WCO Advance directly from IBM Credit.

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

(D) Unless otherwise due and payable at an earlier date, the unpaid principal amount of each A/R Advance shall be due and payable on the applicable Common Due Date. Unless otherwise notified by Borrower in writing prior to the day the principal amount of any WCO Advance becomes due and payable, the Borrower shall be deemed to have provided IBM Credit with a Request for WCO Advance requesting a WCO Advance on the day such principal amount is due and payable in an amount equal to the unpaid principal amount of the WCO Advance so due. Subject to the terms and conditions of this Agreement, the principal amount of such WCO Advance shall automatically renew for an additional WCO Advance Term.

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

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

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

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

(D) If any amount owed under this Agreement, including, without limitation, any Advance, is not paid when due (whether at maturity, by acceleration or otherwise), the unpaid amount thereof will bear a late charge from and including the day after such Advance was due and payable to and including the date IBM Credit receives payment thereof, at a per annum rate equal to the lesser of (a) the amount set forth in Attachment A to this Agreement as the "Delinquency Fee Rate" and (b) the highest rate from time to time permitted by applicable law. In addition, if any Shortfall Amount shall not be paid when due pursuant to Section 2.6 hereof, Borrower shall pay IBM Credit a Shortfall Transaction Fee. If it is determined that amounts received from Borrower were in excess of such highest rate, then the amount representing such excess shall be considered reductions to principal of Advances.

2.5. BORROWER ACCOUNT STATEMENTS. IBM Credit will send statements of each transaction hereunder as well as monthly billing statements to Borrower with respect to Advances and other charges due on Borrower's account with IBM Credit. Each statement of transaction and monthly billing statement shall be deemed, absent manifest error, to be correct and shall constitute an account stated with respect to each transaction or amount described therein unless within seven (7) Business Days after such statement of transaction or billing statement is received by Borrower, Borrower provides IBM Credit written notice objecting that such amount or transaction is incorrectly described therein and specifying the error(s), if any, contained therein. IBM Credit may at any time adjust such statements of transaction or billing statements to comply with applicable law and this Agreement.

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

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

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

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

SECTION 3. CREDIT LINE ADDITIONAL PROVISIONS

3.1. (A) INELIGIBLE ACCOUNTS. IBM Credit and Borrower agree that IBM Credit shall have the sole right to determine eligibility of Accounts from an Account Debtor for purposes of determining the Borrowing Base; provided that IBM Credit shall exercise such discretion in good faith and, provided further, however, without limiting such right, the following Accounts will be deemed to be ineligible for purposes of determining the Borrowing Base:

(1) Accounts created from the sale of goods and/or performance of services on non-standard terms or that allow for payment to be made more than thirty (30) days from the date of such sale or performance of services;

(2) Accounts unpaid more than ninety (90) days from date of invoice;

(3) Accounts payable by an Account Debtor if fifty percent (50%) or more of the aggregate outstanding balance of all such Accounts and Acquired Accounts payable by the same account debtor remain unpaid for more than ninety (90) days from the date of invoice;

(4) Accounts payable by an Account Debtor that is an Affiliate of any Loan Party, or an officer, employee, agent, guarantor, stockholder of Loan Party or an Affiliate of any Loan Party, or is related to or has common shareholders, officers or directors with any Loan Party;

(5) Accounts arising from consignment sales;

(6) Except for state, local and United States government institutions and public educational institutions, Accounts with respect to which the payment by the Account debtor is or may be conditional;

(7) Except for state, local and United States government institutions and public educational institutions, Accounts with respect to which:

(i) the Account debtor is not a commercial entity, or

(ii) the Account debtor is not a resident of the United States;

(8) Accounts payable by any Account Debtor to which any Loan Party is or shall become liable for goods sold or services rendered by such Account Debtor to any Loan Party, except for Accounts payable by IBM provided that IBM Credit has received evidence satisfactory to it that IBM has waived in writing its right to setoff such amounts owed to Borrower with any amount Borrower may owe to IBM;

(9) Accounts arising from the sale or lease of goods purchased for a personal, family or household purpose;

(10) Accounts arising from the sale or other disposition of goods that have been used for demonstration purposes or loaned or leased by the Borrower to another party;

(11) Accounts which are progress payment accounts or contra accounts;

(12) Accounts upon which IBM Credit does not have a valid, perfected, first priority security interest;

(13) Accounts payable by an Account Debtor that any Loan Party knows is subject to proceedings under United States Bankruptcy Law or other law for the relief of debtors;

(14) Accounts that are not payable in US dollars;

(15) Accounts payable by any Account Debtor that is a remarketer of computer hardware and software products and whose purchases of such products from Borrower have been financed by another person, other than IBM Credit, who pays the proceeds of such financing directly to Borrower on behalf of such debtor ("Third Party Financer") unless (i) such Third Party Financer does not have a separate financing relationship with Borrower or (ii) such Third Party Financer has a separate financing relationship with Borrower and has waived its right to set off its obligations to Borrower;

(16) Accounts arising from the sale or lease of goods which are billed to any Account Debtor but have not yet been shipped by Borrower or PFS;

(17) Accounts with respect to which Borrower or PFS has permitted or agreed to any extension, compromise or settlement, or made any change or modification of any kind or nature, including, but not limited to, any change or modification to the terms relating thereto, unless agreed to in writing by IBM Credit;

(18) Accounts that do not arise from undisputed bona fide transactions completed in accordance with the terms and conditions contained in the invoices, purchase orders and contracts relating thereto;

(19) Accounts that are discounted for the full payment term specified in Borrower's terms and conditions with its Account Debtors, or for any longer period of time;

(20) Accounts on cash on delivery (C.O.D.) terms;

(21) Accounts arising from maintenance or service contracts that are billed in advance of full performance of service;

(22) Accounts arising from bartered transactions;

(23) Accounts arising from price protection payments, incentive payments, rebates, discounts, credits, and refunds from a supplier, except for Accounts arising from incentive payments, rebates invoiced on a monthly basis, discounts, credits, and refunds in each case owed by IBM to Borrower provided that (i) Borrower obtains (and provides to IBM Credit along with the monthly Collateral Management Report required under Section 7.1(0)) from IBM written confirmation (a) acknowledging the obligation of IBM to pay such amount, (b) stating the date the amount is due to be paid and (c) IBM waiving its right to setoff such amounts owed to Borrower with any amount Borrower may owe to IBM; (ii) such Accounts do not remain unpaid for more than sixty (60) days from the date the obligation of IBM occurred; and (iii) such Accounts are deposited directly into the Lockbox; and,

(24) Any and all other Accounts that IBM Credit deems, in its sole and absolute discretion, to be ineligible.

In the event IBM Credit determines in its sole discretion to deem certain Accounts to be ineligible pursuant to the introductory paragraph or paragraph (24) above, IBM Credit will provide written notification to Borrower of its determination of ineligibility of such Accounts and such ineligibility shall be applied to such Accounts arising from invoices dated one Business Day after the date of such notification.

The aggregate of all Accounts that are not ineligible Accounts shall hereinafter be referred to as "Eligible Accounts".

(B) INELIGIBLE ACQUIRED ACCOUNTS. IBM Credit and Borrower agree that IBM Credit shall have the sole right to determine eligibility of Acquired Accounts from a BSD Account Debtor for purposes of determining the Borrowing Base; provided that IBM Credit shall exercise such discretion in good faith and, provided further, however, without limiting such right, the following Acquired Accounts will be deemed to be ineligible for purposes of determining the Borrowing Base:

(1) Acquired Accounts created from the sale of goods and/or performance of services on non-standard terms or that allow for payment to be made more than thirty (30) days from the date of such sale or performance of services;

(2) Acquired Accounts unpaid more than ninety (90) days from date of invoice;

(3) Acquired Accounts payable by a BSD Account Debtor if fifty percent (50%) or more of the aggregate outstanding balance of all such Acquired Accounts and Accounts payable by such same account debtor remain unpaid for more than ninety (90) days from the date of invoice;

(4) Acquired Accounts payable by a BSD Account Debtor that is an Affiliate of any Loan Party or BSD, or an officer, employee, agent, guarantor, stockholder of Loan Party or an Affiliate of any Loan Party or BSD, or is related to or has common shareholders, officers or directors with any Loan Party;

(5) Acquired Accounts arising from consignment sales;

(6) Except for state, local and United States government institutions and public educational institutions, Acquired Accounts with respect to which the payment by the BSD Account Debtor is or may be conditional;

(7) Except for state, local and United States government institutions and public educational institutions, Accounts with respect to which:

(i) the BSD Account Debtor is not a commercial entity, or

(ii) the BSD Account Debtor is not a resident of the United States;

(8) Acquired Accounts payable by any BSD Account Debtor to which any Loan Party or BSD is or shall become liable for goods sold or services rendered by such BSD Account Debtor to any Loan Party or BSD, except for BSD Acquired Accounts payable by IBM provided that IBM Credit has received evidence satisfactory to it that IBM has waived in writing its right to setoff such amounts owed to Borrower or BSD with any amount Borrower or BSD may owe to IBM;

(9) Acquired Accounts arising from the sale or lease of goods purchased for a personal, family or household purpose;

(10) Acquired Accounts arising from the sale or other disposition of goods that have been used for demonstration purposes or loaned or leased by the Borrower or BSD to another party;

(11) Acquired Accounts which are progress payment accounts or contra accounts;

(12) Acquired Accounts upon which IBM Credit does not have a valid, perfected, first priority security interest;

(13) Acquired Accounts payable by an BSD Account Debtor that any Loan Party knows is subject to proceedings under United States Bankruptcy Law or other law for the relief of debtors;

(14) Acquired Accounts that are not payable in US dollars;

(15) Acquired Accounts payable by any BSD Account Debtor that is a remarketer of computer hardware and software products and whose purchases of such products from Borrower or BSD have been financed by another person, other than IBM Credit, who pays the proceeds of such financing directly to Borrower or BSD on behalf of such debtor ("Third Party Financer") unless (i) such Third Party Financer does not have a separate financing relationship with Borrower or BSD or (ii) such Third Party Financer has a separate financing relationship with Borrower and has waived its right to set off its obligations to Borrower or BSD;

(16) Acquired Accounts arising from the sale or lease of goods which are billed to any BSD Account Debtor but have not yet been shipped by Borrower or PFS or BSD;

(17) Acquired Accounts with respect to which Borrower or PFS or BSD has permitted or agreed to any extension, compromise or settlement, or made any change or modification of any kind or nature, including, but not limited to, any change or modification to the terms relating thereto, unless agreed to in writing by IBM Credit;

(18) Acquired Accounts that do not arise from undisputed bona fide transactions completed in accordance with the terms and conditions contained in the invoices, purchase orders and contracts relating thereto;

(19) Acquired Accounts that are discounted for the full payment term specified in Borrower's or BSD's terms and conditions with its BSD Account Debtors, or for any longer period of time;

(20) Acquired Accounts on cash on delivery (C.O.D.) terms;

(21) Acquired Accounts arising from maintenance or service contracts that are billed in advance of full performance of service;

(22) Acquired Accounts arising from bartered transactions;

(23) Acquired Accounts arising from incentive payments, rebates, discounts, credits, and refunds from a supplier, and

(24) Any and all other Acquired Accounts that IBM Credit deems, in its sole and absolute discretion, to be ineligible.

The aggregate of all Acquired Accounts that are not ineligible Acquired Accounts shall hereinafter be referred to as "Eligible Acquired Accounts". Notwithstanding anything herein to the contrary, Eligible Acquired Accounts shall not include any accounts receivable acquired by the Borrower after the Second Conversion Date.

3.2. REIMBURSEMENT FOR CHARGES. Borrower agrees to pay for all costs and expenses of Borrower's bank in respect to collection of checks and other items of payment, all fees relating to the use and maintenance of the Lockbox and the Special Account and with respect to remittances of proceeds of the Advances hereunder.

3.3. LOCKBOX AND SPECIAL ACCOUNT. Borrower shall establish and maintain lockbox(es) (each, a "Lockbox") at the address(es) set forth in Attachment A with the financial institution(s) listed in Attachment A (each, a "Bank") pursuant to an agreement between the Borrower and each Bank in form and substance satisfactory to IBM Credit. Borrower shall also establish and maintain a deposit account which shall contain only proceeds of Borrower's Accounts and the Acquired Accounts ("Special Account") with each Bank. Borrower shall enter into and maintain a blocked account agreement with each Bank for the benefit of IBM Credit in form and substance satisfactory to IBM Credit pursuant to which, among other things, such Bank shall agree that disbursements from the Special Account shall be made only as IBM Credit shall direct.

3.4. COLLECTIONS. Each of PFS and the Borrower shall instruct all Account Debtors and the BSD Account Debtors to remit payments directly to a Lockbox. In addition, each of PFS and the Borrower shall have such instruction printed in conspicuous type on all invoices relating to such Accounts and Acquired Accounts. Borrower shall instruct such Bank to deposit all remittances to such Bank's Lockbox into its Special Account. Each of Borrower and PFS further agrees that it shall not deposit or permit any deposits of funds other than remittances paid in respect of the Accounts and the Acquired Accounts into the Special Account(s) or permit any commingling of funds with such remittances in any Lockbox or Special Account.

Without limiting the Borrower's foregoing obligations, if, at any time, PFS or the Borrower receives a remittance directly from an Account Debtor or BSD Account Debtor in payment of an Account or Acquired Account, then PFS or the Borrower (as applicable) shall make entries on its books and records in a manner that shall reasonably identify such remittances and shall keep a separate account on its record books of all remittances so received and deposit the same into a Special Account. Until so deposited into the Special Account, PFS or the Borrower (as applicable) shall keep all remittances received in respect of such Accounts and Acquired Accounts separate and apart from PFS's or the Borrower's (as applicable) other property so that they are capable of identification as the proceeds of Accounts and Acquired Accounts in which IBM Credit has a security interest.

3.5. APPLICATION OF REMITTANCES AND CREDITS. PFS and Borrower shall apply all remittances against the aggregate of Borrower's outstanding Accounts and Acquired Accounts no later than the end of the next Business Day on which such remittances are deposited into the Special Account. Each of PFS and Borrower agrees to apply each remittance against its respective Account or Acquired Account no later than three (3) Business Days from the date such remittance is deposited into the Special Account. If, however, Borrower or PFS is unable to identify the manner in which a remittance should be applied within three (3) Business Days, Borrower shall clearly identify such unapplied amount on the Collateral Management Report. In addition, PFS and Borrower shall promptly apply any credits owing in respect to any Account or Acquired Account when due.

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

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

(B) subject to any agreement between IBM Credit and such Bank, direct the Bank maintaining any Lockbox or Special Account to pay the funds on deposit to IBM Credit for application to the Obligations; upon the occurrence and during the continuance of an Event of Default as defined in Section 9.1 hereof:

(C) endorse the name of Borrower or PFS upon any of the items of payment of proceeds of collateral and deposit the same in the Special Account for application to the Obligations;

(D) demand payment, enforce payment and otherwise exercise all of Borrower's or PFS's rights and remedies with respect to the collection of any Accounts or Acquired Account;

(E) settle, adjust, compromise, extend or renew any Accounts or Acquired Account;

(F) settle, adjust or compromise any legal proceedings brought to collect any Accounts or Acquired Account;

(G) sell or assign any Accounts or Acquired Account upon such terms, for such amounts and at such time or times as IBM Credit may deem advisable;

(H) discharge and release any Accounts or Acquired Account;

(I) prepare, file and sign any such Loan Party's name on any Proof of Claim in Bankruptcy or similar document against any Account Debtor or BSD Account Debtor;

(J) prepare, file and sign any such Loan Party's name on any notice of lien, claim of mechanic's lien, assignment or satisfaction of lien or mechanic's lien, or similar document in connection with any Accounts or Acquired Account;

(K) endorse the name of Borrower or PFS upon any chattel paper, document, instrument, invoice, freight bill, bill of lading or similar document or agreement relating to any Account or Acquired Account or goods pertaining thereto;

(L) endorse the name of Borrower or PFS upon any of the items of payment of proceeds and deposit the same in the account of IBM Credit for application to the Obligation;

(M) sign the name of Borrower or PFS to requests for verification of Accounts or Acquired Account and notices thereof to Account Debtors or BSD Account Debtors;

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

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

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

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

3.7. CONCENTRATION ACCOUNTS. Without limiting IBM Credit's other rights, IBM Credit reserves the right to, from time to time in its sole discretion, exercised in good faith, modify the percentage of the amount of Borrower's Concentration Accounts permitted to be used in calculating Borrower's Borrowing Base ("Advance Rate") or eliminate Concentration Accounts in calculating Borrower's Borrowing Base. In the event IBM Credit determines in its sole discretion to modify the Advance Rate pertaining to a particular Concentration Account, or eliminate Concentration Accounts in calculating Borrower's Borrowing Base, IBM Credit will provide written notification to Borrower of the modified Advance Rate (or such elimination) to be applied to Accounts and Acquired Accounts arising from invoices dated one Business Day after the date of such notification.

SECTION 4. SECURITY -- COLLATERAL

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

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

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

(C) all General Intangibles;

(D) all Deposit Accounts;

(E) all Commercial Tort Claims;

(F) all Intellectual Property;

(G) all Investment Property;

(H) all Letter of Credit Rights;

(I) all Supporting Obligations;

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

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

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

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

PFS consents to the Borrower assigning all of its right, title, and interest in and to the PFS Agreement, the IBM Agreement, and the other Transaction Documents as Collateral to secure the payment of all Obligations of Borrower to IBM Credit.

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

SECTION 5. CONDITIONS PRECEDENT

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

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

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

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

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

(E) a certified copy of the fully executed Daisytek Stock Purchase Agreement by and among Daisytek, PFS, and Borrower in form and substance satisfactory to IBM Credit in its sole discretion;

(F) the Borrower shall have acquired all of the stock of the BSD Companies and BSD shall have merged into the Borrower with the Borrower being the surviving entity;

(G) a certified copy of the Merger Documents in form and substance satisfactory to IBM Credit in its sole discretion;

(H) an opinion of counsel in form and substance satisfactory to IBM Credit and from counsel satisfactory to it which opinion shall include, without limitation, an opinion that (i) the Daisytek Stock Purchase Agreement and related documents are legal, valid, binding and enforceable obligations of the parties thereto, (ii) the Acquired Accounts are free of all liens, security interests and encumbrances and (iii) IBM Credit has a first perfected priority security interest in such Acquired Accounts;

(I) the consolidated Financial Statements of Borrower and BSD as of Closing Date in form and substance satisfactory to IBM Credit in its sole discretion;

(J) evidence satisfactory to IBM Credit that Loan Parties have paid any amounts necessary to IBM so that once the IBM Payment is made, pursuant to Section 2.3(B) upon the Closing Date, all accounts receivable owed to IBM by Daisytek and BSD ("IBM Liability") shall be indefeasibly paid in full;

(K) fully executed Supplement to Master Distributor Agreements in form and substance satisfactory to IBM Credit in its sole discretion and evidence that all payments required thereunder have been indefeasibly paid in full;

(L) copies of all approvals and consents from any Person, in each case in form and substance satisfactory to IBM Credit, which are required to enable each Loan Party to authorize, or required in connection with, (a) the execution, delivery or performance of this Agreement and each of the Other Documents, and (b) the legality, validity, binding effect or enforceability of this Agreement and each of the Other Documents;

(M) IBM Credit shall have received evidence satisfactory to it that (i) PFS shall have made or caused to be made an equity contribution to the Borrower in immediately available funds in an amount equal to Seven Hundred Fifty Thousand Dollars (\$750,000), (ii) IFP shall have made or caused to be made an equity contribution to the Borrower in immediately available funds in an amount equal to Two Hundred Fifty Thousand Dollars (\$250,000) and (iii) PFS shall have made or caused to be made a loan to the Borrower in immediately available funds in an amount equal to Six Million Dollars (\$6,000,000) and such loan shall be subordinated to the Obligations pursuant to the notes payable subordination agreement referred to in (G) below;

(N) notes payable subordination executed by PFS in favor of IBM Credit in form and substance satisfactory to IBM Credit in its sole discretion;

(O) Subordinated Demand Note executed by Borrower and endorsed payable to IBM Credit;

(P) collateralized guaranty executed by each of Holdings and PFS in favor of IBM Credit in form and substance satisfactory to IBM Credit in its sole discretion;

(Q) corporate guaranty executed by PFSweb in favor of IBM Credit in form and substance satisfactory to IBM Credit in its sole discretion;

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

(S) Borrower Stock Pledge Agreement executed by Borrower in form and substance satisfactory to IBM Credit in its sole discretion pursuant to which Borrower shall pledge the stock in BSD (Canada), Inc. and Supplies Distributors of Canada, Inc.;

(T) documentation satisfactory to IBM Credit in its sole discretion evidencing Borrower's right, title and interest to accounts receivable represented by invoices under the name of PFS;

(U) fully-executed Transaction Documents, satisfactory to IBM Credit in its sole discretion;

(V) evidence that Borrower is a wholly-owned Subsidiary of Holdings;

(W) delivery of a copy of the PFS Agreement which agreement shall be in form and substance satisfactory to IBM Credit in its sole discretion;

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

(Y) a lockbox agreement executed by Borrower and each Bank, in form and substance satisfactory to IBM Credit;

(Z) a blocked account agreement executed by Borrower and each Bank in form and substance satisfactory to IBM Credit;

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

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

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

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

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

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

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

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

(II) IBM Credit shall have received evidence satisfactory to it that Supplies Distributors is a registered D.B.A. name of the Borrower; and

(JJ) all such other statements, certificates, documents, instruments, financing statements, agreements and other information with respect to the matters contemplated by this Agreement as IBM Credit shall have reasonably requested.

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

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

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

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

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

Except as Borrower has otherwise disclosed to IBM Credit in writing prior to each request, each request (or deemed request pursuant to Section 2.2(A) or 2.3(D)) for an Advance hereunder and the receipt (or deemed receipt) by the Borrower of the proceeds of any Advance hereunder shall be deemed to be a representation and warranty by Borrower and each Loan Party that, as of and on the date of such Advance, the statements

set forth in (A) through (D) above are true statements. No such disclosures by Borrower to IBM Credit shall in any manner be deemed to satisfy the conditions precedent to each Advance that are set forth in this Section 5.2.

SECTION 6. REPRESENTATIONS AND WARRANTIES

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

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

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

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

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

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

are maintained exclusively at the locations set forth on Attachment B or on any written notice provided by any Loan Party to IBM Credit pursuant to Section 7.7(C) of this Agreement .

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

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

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

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

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

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

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

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

As used in this Agreement the terms "employee benefit plan", "employee pension benefit plan", "defined benefit plan", and "multi-employer benefit plan" have the respective meanings assigned to them in Section 3

of ERISA and any applicable rules and regulations thereunder. None of the Borrower or any Guarantor has incurred any "accumulated funding deficiency" within the meaning of ERISA or incurred any liability to the Pension Benefit Guaranty Corporation (the "PBGC") in connection with a Plan (other than for premiums due in the ordinary course).

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

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

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

6.14. INTELLECTUAL PROPERTY. Each of the Borrower and each Guarantor (other than PFSweb) possesses such assets, licenses, Patents, patent applications, Copyrights, service marks, Trademarks, trade names and trade secrets and all rights, priorities and privileges and other property relating thereto or arising therefrom ("Intellectual Property") as are necessary or advisable to continue to conduct its present and proposed business activities. No material claim has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does Borrower or any such Guarantor know of any valid basis for any such claim. All Intellectual Property is valid, subsisting, unexpired and enforceable, and the use of Intellectual Property by Borrower and each Guarantor (other than PFSweb) and each of their Subsidiaries does not infringe on the rights of any Person in any material respect.

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

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

to consummate the transactions contemplated by this Agreement or the Other Documents or to perform its obligations hereunder or thereunder.

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

6.18. STATUS OF ACCOUNTS AND ACQUIRED ACCOUNTS. (A) Each Account is based on an actual and bona fide sale and delivery of goods or rendition of services to customers, made by Borrower, in the ordinary course of its business; the goods and inventory being sold by Borrower and the Accounts created thereby are its exclusive property and are not and shall not be subject to any Lien, consignment arrangement, encumbrance, security interest or financing statement whatsoever (other than Permitted Liens). In respect of each Eligible Account, the Borrower's customers have accepted goods or services and owe and are obligated to pay the full amounts stated in the invoices according to their terms. There are no proceedings or actions known to Borrower or any Guarantor which are pending or threatened against any Material Account Debtor (as defined in Section 7.14(B) of this Agreement) of any of the Accounts or Acquired Accounts which could reasonably be expected to result in a Material Adverse Effect.

(B) Each Acquired Account is based on an actual and bona fide sale and delivery of goods or rendition of services to customers, made by BSD, in the ordinary course of its business; the goods and the Acquired Accounts created thereby are Borrower's exclusive property. Borrower is the sole, legal and beneficial owner and has good title to the Acquired Accounts. The Acquired Accounts are not and shall not be subject to any Lien, consignment arrangement, encumbrance, security interest or financing statement whatsoever (other than Permitted Liens). In respect of each Eligible Acquired Account, the BSD Account Debtors (i) have accepted goods or services and owe and are obligated to pay the full amounts stated in the invoices according to their terms and (ii) have no right of set-off.

(C) PFS acknowledges that it does not have title to any of the Collateral, including inventory and Products owned by Borrower or the Accounts arising therefrom or to the Acquired Accounts, or any lien on the Collateral (including the Products and the Accounts arising from the sale of Products or to the Acquired Accounts) and has not pledged, encumbered or granted any security interest in the Collateral (including the Products and the Accounts arising from the sale of Products). PFS acknowledges and agrees that in performing its services under the PFS Agreement and IBM Agreement, PFS has not acquired title to any of the Products acquired by Borrower or to the Accounts or Acquired Accounts or revenue arising from the resale thereof or to the Acquired Accounts.

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

6.20. ACCURACY AND COMPLETENESS OF INFORMATION. All factual information furnished by or on behalf of any Loan Party to IBM Credit or the Auditors for purposes of or in connection with this Agreement or any

Other Document, or any transaction contemplated hereby or thereby is or will be true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any material fact necessary to make such information not misleading at such time.

6.21. RECORDING TAXES. All recording taxes, recording fees, filing fees and other charges payable in connection with the filing and recording of this Agreement have either been paid in full by Loan Parties or arrangements for the payment of such amounts by Loan Parties have been made to the satisfaction of IBM Credit.

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

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

6.24. LIMITATIONS ON LOCKBOXES AND SPECIAL ACCOUNTS. Borrower has no Lockbox, Special Account or other deposit accounts with any banks except as provided in Attachment B of this Agreement.

SECTION 7. AFFIRMATIVE COVENANTS

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

7.1. FINANCIAL AND OTHER INFORMATION.

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

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

(C) Borrower and Holdings shall deliver as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of Holdings (i) consolidating Financial Statements of Holdings and Borrower as of the end of such period and for the fiscal year to date, together with a comparison to the

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

(D) PFSweb shall deliver as soon as available and in any event within forty-five (45) days after the end of each fiscal quarter of PFSweb (i) the Form 10-Q Quarterly Report filed with the Securities and Exchange Commission for that quarter just ended and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-2 hereto, of the calculations used in determining, as of the end of such fiscal quarter, whether PFSweb is in compliance with the financial covenants set forth in Attachment A (in the event PFSweb is no longer a public company, PFSweb shall be required to deliver Financial Statements and such other documentation as required by Holdings and Borrower in (C) above);

(E) Holdings, Borrower and PFSweb (as applicable) shall deliver as soon as available and in any event within twenty five (25) days after the end of each fiscal month of Holdings, Borrower and PFSweb (i) consolidating Financial Statements of Holdings and consolidated Financial Statements of PFSweb as of the end of such period and for the fiscal year to date, together with a comparison to the Financial Statements for the same periods in the prior year, all in reasonable detail and duly certified (subject to normal year-end audit adjustments and except for the absence of footnotes) by the chief executive officer or chief financial officer of such Loan Party as having been prepared in accordance with GAAP; and (ii) a Compliance Certificate along with a schedule, in substantially the form of Attachment C-1 and C-2 hereto, of the calculations used in determining, as of the end of such fiscal month, whether Holdings, the Borrower and PFSweb are in compliance with the financial covenants set forth in Attachment A;

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

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

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

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

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

(K) Each Loan Party shall deliver promptly after any such Loan Party obtains knowledge that (i) any order, judgment or decree in excess of \$1,000,000 shall have been entered against the Borrower or any Guarantor or any of its properties or assets, or (ii) it has received any notification of a material violation of any Requirement of Law from any Governmental Authority, a certificate of the chief executive officer or chief financial officer or other Authorized Officer of such Loan Party specifying the nature thereof and such Loan Party's proposed response thereto, each in reasonable detail;

(L) Each Loan Party shall deliver promptly after any such Loan Party learns of any material labor dispute to which the Borrower or any Guarantor may become a party, any strikes or walkouts relating to any of its plants or other facilities, and the expiration of any labor contract to which any such Loan Party is a party or by which it is bound, a certificate of the chief executive officer or chief financial officer or other Authorized Officer of such Loan Party specifying the nature thereof and such Loan Party's proposed response thereto, each in reasonable detail;

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

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

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

(P) Borrower shall deliver along with the Financial Statements set forth in Section 7.1(A), (B), (C), (D) and (E), the name, address and phone number of each of its Account Debtors' and BSD's Account Debtors' primary contacts for each Account and Acquired Account on the Accounts (and Acquired Accounts, if any) aging report contained in its most recent Collateral Management Report; and

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

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

7.2. LOCATION OF BORROWER AND COLLATERAL. If it is a registered organization, the organizational document creating Borrower, Holdings and each other Guarantor has been filed in the appropriate office of the State referred to in the first paragraph of this Agreement. The inventory, equipment and other tangible Collateral or other Collateral shall be kept or sold at the addresses as set forth on Attachment B or on any

notice provided by any Loan Party to IBM Credit in accordance with Section 7.7(C). Such locations shall be certified quarterly to IBM Credit substantially in the form of Attachment G.

7.3. CHANGES IN LOAN PARTIES. Each Loan Party shall provide thirty (30) days prior written notice to IBM Credit of any change in such Loan Party's name, chief executive office and principal place of business, organization, form of ownership or structure; provided, however, that such Loan Party's compliance with this covenant shall not relieve it of any of its other obligations or any other provisions under this Agreement or any Other Document limiting actions of the type described in this Section.

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

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

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

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

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

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

Collateral shall be kept separately from PFS's other books and records and PFS agrees to note on the books and records pertaining to the Collateral that such books and records are the property of Borrower.

(B) Each of the Borrower and Guarantors (other than PFSweb) agrees that IBM Credit or its agents may enter upon the premises of any such Loan Party at any time and from time to time, during normal business hours and upon reasonable notice under the circumstances, and at any time at all on and after the occurrence and during the continuance of an Event of Default for the purposes of (i) inspecting the Collateral and Other Collateral, (ii) inspecting and/or copying (at Borrower's or Guarantor's expense) any and all records pertaining thereto, (iii) discussing the affairs, finances and business of each such Loan Party with any officers, employees and directors of such Loan Party or with the Auditors and (iv) verifying Eligible Accounts, Eligible Acquired Accounts and other Collateral. Upon reasonable prior notice, each such Loan Party also agrees to provide IBM Credit with such reasonable information and documentation that IBM Credit deems necessary to conduct the foregoing activities, including, without limitation, reasonably requested samplings of purchase orders, invoices and evidences of delivery or other performance.

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

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

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

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

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

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

7.9. TAXES. Each of the Borrower and Guarantors agrees to pay, when due, all taxes lawfully levied or assessed against such Loan Party or any of the Collateral before any penalty or interest accrues thereon unless such taxes are being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted and an adequate reserve or other appropriate provisions have been made therefor as required in order to be in conformity with GAAP and an adverse determination in such proceedings could not reasonably be expected to have a Material Adverse Effect.

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

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

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

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

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

(A) from time to time upon request of IBM Credit, provide IBM Credit with access to copies of all invoices, delivery evidences and other such documents relating to each Account and Acquired Account;

(B) promptly upon any Loan Party obtaining knowledge thereof, furnish to and inform IBM Credit of all material adverse information relating to the financial condition of any Account Debtor or BSD Account Debtors whose outstanding obligations to Borrower constitute five percent (5%) or more of the Accounts and Acquired Accounts (in the aggregate) at such time (a "Material Account Debtor");

(C) promptly upon any Loan Party learning thereof, notify IBM Credit in writing of any event which would cause any obligation of a Material Account Debtor to become an Ineligible Account or Ineligible Acquired Accounts;

(D) keep all goods rejected or returned by any Account Debtor or BSD Account Debtor and all goods repossessed or stopped in transit by PFS (or Borrower, if applicable) from any Account Debtor or BSD Account Debtor segregated from other property of Borrower or PFS, holding the same in trust for IBM Credit until Borrower applies a credit against such Account Debtor's or BSD Account Debtor's outstanding obligations to Borrower or Borrower sells such goods in the ordinary course of business, whichever occurs earlier;

(E) stamp or otherwise mark chattel paper and instruments now owned or hereafter acquired by the Borrower or any Guarantor in conspicuous type to show that the same are subject to IBM Credit's

security interest and immediately thereafter deliver or cause such chattel paper and instruments to be delivered to IBM Credit or any agent designated by IBM Credit with appropriate endorsements and assignments to vest title and possession in IBM Credit;

(F) use commercially reasonable efforts to collect all Accounts and Acquired Accounts owed;

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

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

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

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

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

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

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

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

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

SECTION 8. NEGATIVE COVENANTS

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

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

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

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

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

8.5. GUARANTIES. Neither the Borrower nor Holdings will, directly or indirectly, assume, guaranty, endorse, or otherwise become liable upon the obligations of any other Person, except (i) by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business, (ii) by the giving of indemnities in connection with the sale of inventory or other asset dispositions permitted hereunder, (iii) for guaranties in favor of IBM Credit, and (iv) the guaranty referred to in

paragraph 2 of the definition of Permitted Indebtedness and (v) for obligations which, if incurred directly by any such Loan Party, would be permitted hereunder as Permitted Indebtedness.

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

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

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

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

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

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

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

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

accumulated funding deficiency or risk of termination which could reasonably be expected to have a Material Adverse Effect.

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

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

(B) PFS shall not permit any of its (or its customers') inventory (other than Borrower) to be commingled with the Collateral.

8.12. USE OF PROCEEDS. Borrower shall not use any portion of the proceeds of any Advances other than to acquire Products from Authorized Suppliers and for its general working capital requirements. Borrower shall not use any portion of the proceeds of any Advances made on the Closing Date other than to satisfy the IBM Liabilities in accordance with an agreement in form and substance satisfactory to IBM Credit in its sole discretion.

8.13. ACCOUNTS AND ACQUIRED ACCOUNTS. No Loan Party shall permit or agree to any extension, compromise or settlement or make any change or modification of any kind or nature with respect to any Account or Acquired Account, including any of the terms relating thereto, which would affect IBM Credit's ability to collect payment on any Account or Acquired Account in whole or in part, except for such extensions, compromises or settlements made by any Loan Party in the ordinary course of its business, provided, however, that the aggregate amount of such extensions, compromises or settlements does not exceed five percent (5%) (in the aggregate) of Borrower's Accounts and Acquired Accounts at such time.

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

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

8.16. LOCKBOXES AND SPECIAL ACCOUNTS. Borrower shall not have or maintain any Lockbox, Special Account or other deposit account with any bank except as provided in Attachment B of this Agreement.

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

SECTION 9. DEFAULT

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

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

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

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

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

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

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

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

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

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

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

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

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

(M) The occurrence of any event or condition that permits the holder of any Indebtedness of any Loan Party, Guarantor, or any Loan Party's Subsidiary in a principal amount in excess of \$100,000 arising

in one or more related or unrelated transactions to accelerate the maturity thereof or the failure of any Loan Party to pay when due any such Indebtedness;

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

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

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

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

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

(S) IBM ceases to be an Authorized Supplier.

(T) The PFS Agreement or any other Transaction Document expires or is terminated.

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

9.3. REMEDIES. (A) Upon the occurrence and during the continuance of any Event of Default which has not been waived in writing by IBM Credit, IBM Credit may exercise all rights and remedies of a secured party under the U.C.C. Without limiting the generality of the foregoing, IBM Credit may: (i) remove from any premises where same may be located any and all documents, instruments, files and records (including the copying of any computer records), and any receptacles or cabinets containing same, relating to the Accounts or the Acquired Account, or IBM Credit may use (at the expense of Loan Parties) such of the supplies or space of such Loan Party at such Loan Party's place of business or otherwise, as may be necessary to properly administer and control the Accounts and Acquired Accounts or the handling of collections and realizations thereon; (ii) send a notice of assignment that has been executed by PFS ("Notice of Assignment") to notify all Account Debtors and BSD Account Debtors that PFS has no right, title or interest in or to the Accounts and the Acquired Accounts and that the Borrower has assigned its right, title and interest in and to the Accounts and the Acquired Accounts to IBM Credit; (iii) bring suit, in the name of any Loan Party or IBM Credit and generally shall have all other rights respecting said Accounts and the Acquired Accounts, including without limitation the right to accelerate or extend the time of payment, settle, compromise, release in whole or in part any amounts owing on any Accounts or the Acquired

Accounts and issue credits in the name of any Loan Party or IBM Credit; (iv) sell, assign and deliver the Accounts and the Acquired Accounts and any returned, reclaimed or repossessed merchandise, with or without advertisement, at public or private sale, for cash, on credit or otherwise, at IBM Credit's sole option and discretion, and IBM Credit may bid or become a purchaser at any such sale; and (v) foreclose the security interests created pursuant to this Agreement by any available judicial procedure, or to take possession of any or all of the Collateral without judicial process and to enter any premises where any Collateral may be located for the purpose of taking possession of or removing the same.

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

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

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

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

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

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

SECTION 10. MISCELLANEOUS

10.1. TERM; TERMINATION. (A) This Agreement shall remain in force until the earlier of (i) the Termination Date, (ii) the date specified in a written notice by Borrower that it intends to terminate this Agreement which date shall be no less than ninety (90) days following the receipt by IBM Credit of such written notice, and (iii) termination by IBM Credit after the occurrence and during the continuance of an Event of Default. Upon the date that this Agreement is terminated, all of Obligations shall be immediately due and payable in their entirety, even if they are not yet due under their terms.

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

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

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

10.4. LIMITATION OF LIABILITY. NEITHER IBM CREDIT NOR ANY OTHER INDEMNIFIED PERSON SHALL HAVE ANY LIABILITY WITH RESPECT TO ANY SPECIAL, INDIRECT OR CONSEQUENTIAL DAMAGES SUFFERED BY ANY LOAN PARTY IN CONNECTION WITH THIS AGREEMENT, ANY OTHER AGREEMENT, ANY DELAY, OMISSION OR ERROR IN THE ELECTRONIC TRANSMISSION OR RECEIPT OF ANY E-DOCUMENT, OR ANY CLAIMS IN ANY MANNER RELATED THERETO. NOR SHALL IBM CREDIT OR ANY OTHER INDEMNIFIED PERSON HAVE ANY LIABILITY TO ANY LOAN PARTY OR ANY OTHER PERSON FOR ANY ACTION TAKEN OR OMITTED TO BE TAKEN BY IT OR THEM HEREUNDER, EXCEPT FOR ITS OR THEIR OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. IN THE EVENT BORROWER REQUESTS IBM CREDIT TO EFFECT A WITHDRAWAL OR DEBIT OF FUNDS FROM AN ACCOUNT OF BORROWER, THEN IN NO EVENT SHALL IBM CREDIT BE LIABLE FOR ANY AMOUNT IN EXCESS OF ANY AMOUNT INCORRECTLY DEBITED, EXCEPT IN THE EVENT OF IBM CREDIT'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. NO PARTY SHALL BE LIABLE FOR ANY FAILURE TO PERFORM ITS OBLIGATIONS IN CONNECTION WITH ANY E-DOCUMENT, WHERE SUCH FAILURE RESULTS FROM ANY ACT OF GOD OR OTHER CAUSE BEYOND SUCH PARTY'S REASONABLE CONTROL (INCLUDING, WITHOUT LIMITATION, ANY MECHANICAL, ELECTRONIC OR COMMUNICATIONS FAILURE) WHICH PREVENTS SUCH PARTY FROM TRANSMITTING OR RECEIVING E-DOCUMENTS.

10.5. ALTERATION/WAIVER. This Agreement and the Other Documents may not be altered or amended except by an agreement in writing signed by each Loan Party signatory to such agreement and by IBM Credit. No delay or omission of IBM Credit to exercise any right or remedy hereunder, whether before or after the occurrence of any Event of Default, shall impair any such right or remedy or shall operate as a waiver thereof or as a waiver of any such Event of Default. In the event that IBM Credit at any time or from time to time dispenses with any one or more of the requirements specified in this Agreement or any of the Other Documents, such dispensation may be revoked by IBM Credit at any time and shall not be deemed to constitute a waiver of any such requirement subsequent thereto. IBM Credit's failure at any time or times to require strict compliance and performance by each Loan Party of any undertakings, agreements, covenants, warranties and representations of this Agreement or any Other Document shall not waive, affect or diminish any right of IBM Credit thereafter to demand strict compliance and performance thereof. Any waiver by IBM Credit of any Default by any Loan Party under this Agreement or any of the Other Documents shall not waive or affect any other Default by any Loan Party under this Agreement or any of the Other Documents, whether such Default is prior or subsequent to such other Default and whether of the same or a different type. None of the undertakings, agreements, warranties, covenants, and representations of any Loan Party contained in this Agreement or the Other Documents and no Default by any Loan Party shall be deemed waived by IBM Credit unless such waiver is in writing signed by an authorized representative of IBM Credit.

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

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

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

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

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

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

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

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

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

(i) If to IBM Credit at:

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

(ii) If to Borrower at:

BSD Acquisition Corp.
500 North Central Expressway
Plano, TX 75074
Attention: Mr. Joe Farrell
President
Facsimile: (888) 330-5504

(iii) If to Holdings at:

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

(iv) If to PFS:

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

(v) If to IFP at:

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

(vi) If to PFSweb at:

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

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

(B) (i) Each party may electronically transmit to or receive from the other party certain documents set forth in Attachment J ("E-Documents") via the Internet or electronic data interchange ("EDI"). Any transmission of data which is not an E-Document shall have no force or effect between the parties. EDI

transmissions may be sent directly or through any third party service provider ("Provider") with which either party may contract. Each party shall be liable for the acts or omissions of its Provider while handling E-Documents for such party, provided, that if both parties use the same Provider, the originating party shall be liable for the acts or omissions of such Provider as to such E-Document. Some information to be made available to each Loan Party will be specific to such Loan Party and will require such Borrower's or Loan Parties' registration with IBM Credit before access is provided. After IBM Credit has approved the registration submitted by such Loan Party, IBM Credit shall provide an ID and password(s) to an individual designated by such Loan Party ("Recipient"). Each Loan Party accepts responsibility for the designated individual's distribution of the ID and password(s) within its organization and each Loan Party will take reasonable measures to ensure that passwords are not shared or disclosed to unauthorized individuals. Each Loan Party will conduct an annual review of all IDs and passwords to ensure they are accurate and properly authorized. IBM CREDIT MAY CHANGE OR DISCONTINUE USE OF AN ID OR PASSWORD AT ITS DISCRETION AT ANY TIME. E-Documents shall not be deemed to have been properly received, and no E-Document shall give rise to any obligation, until accessible to the receiving party at such party's receipt computer at the address specified herein. Upon proper receipt of an E-Document, the receiving party shall promptly transmit a functional acknowledgment in return. A functional acknowledgment shall constitute conclusive evidence that an E-Document has been properly received. If any transmitted E-Document is received in an unintelligible or garbled form, the receiving party shall promptly notify the originating party in a reasonable manner. In the absence of such a notice, the originating party's records of the contents of such E-Document shall control.

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

RECIPIENT INFORMATION for Internet transmissions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IBM CREDIT CORPORATION

BSD ACQUISITION CORP.

By: _____

By: _____

Print Name: _____

Print Name: _____

Title: _____

Title: _____

BUSINESS SUPPLIES DISTRIBUTORS
HOLDINGS, LLC

PRIORITY FULFILLMENT SERVICES, INC.

By: _____ as Managing Member

By: _____

Print Name: _____

Title: _____

INVENTORY FINANCING PARTNERS, LLC

By: _____ as Managing Member

By: _____

Print Name: _____

Title: _____

By: _____

Print Name: _____

Title: _____

PFSWEB, INC.

By: _____

Print Name: _____

Title: _____

IBM CREDIT CORPORATION

COLLATERALIZED GUARANTY

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

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

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

To secure payment of all of Guarantor's current and future debts and obligations to IBM Credit, whether under this Guaranty or any other agreement between IBM Credit and Guarantor and to secure the Liabilities, whether direct or contingent, Guarantor does assign, pledge and give to IBM Credit a security interest in all of Guarantor's personal property, whether now owned or hereafter acquired or existing and wherever located, including the following: (a) all inventory and equipment manufactured or sold by or bearing the trademark or tradename of International Business Machines Corporation ("IBM") or any other Authorized Supplier and all parts thereof, attachments, additions, accessories and accessions thereto, all substitutions, reposessions, exchanges, replacements and returns thereof, all price protection credits, rebates, discounts and incentive payments relating to the foregoing, products and proceeds thereof and documents therefor ("IBM Credit Inventory"); (b) all accounts, chattel paper, instruments, negotiable documents, promissory notes, general

intangibles (including contract rights, software and licenses), deposit accounts, commercial tort claims, intellectual property, investment property, pledged notes, letter of credit rights, supporting obligations, obligations of any kind owing to Guarantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and all books, invoices, documents and other records in any form evidencing or relating to any of the foregoing; (c) all substitutions and replacements for all of the foregoing; and (d) all products or proceeds of all of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code as in effect in the State of New York and are hereinafter referred to as the "Collateral"). Collateral shall not include inventory and equipment of the Guarantor that is not IBM Credit Inventory (as defined above). This security interest is also granted to secure Guarantor's debts to all of IBM Credit's affiliates.

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

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

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

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

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

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

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

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

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

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

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

Guarantor promises that (a) the Collateral is and shall remain free from all claims and liens except IBM Credit's; (b) Guarantor shall defend the Collateral against all other claims and demands; and (c) Guarantor will notify IBM Credit before it signs, or authorizes the signing of any financing statement regardless of its coverage. Guarantor authorizes IBM Credit to file with any filing office such financing statements, amendments, addenda and other records showing IBM Credit as secured party and Guarantor as the debtor and identifying IBM Credit's security interest in the Collateral that IBM Credit deems necessary to perfect

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

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

- -----
- -----

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

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

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

This Guaranty is assignable, shall be construed liberally in IBM Credit's favor, and shall inure to the benefit of and bind IBM Credit's and Guarantor's respective successors, personal representatives and assigns, and also benefit any of IBM Credit's existing or future affiliates that may extend credit to Borrower.

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

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

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

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

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

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

This Guaranty is submitted by Guarantor to IBM Credit (for IBM Credit's acceptance or rejection thereof) at IBM Credit's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM Credit to Borrower. If accepted, this Guaranty shall be deemed to have

been made at IBM Credit's above-specified This Guaranty and all obligations pursuant thereto, shall office. be governed and controlled as to interpretation, enforcement, validity, construction, effect and, in all other respects by the laws of the State of New York without giving effect to the principles of conflicts of laws. Guarantor, to induce IBM Credit to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at IBM Credit's sole discretion and election, in courts within the State of New Guarantor consents and York. submits to the jurisdiction of any local, state or federal court located within that state. Guarantor waives any right to transfer or change the venue of any litigation brought against Guarantor by IBM Credit in accordance with this paragraph.

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

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

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

WITNESS
PRIORITY FULFILLMENT SERVICES, INC.
GUARANTOR

- -----
By: -----
Print Name: -----

Title: -----
Date: -----
(SEAL) -----
Guarantor's Address:

-----, -----

ATTEST:
- -----
Secretary
Print Name: -----

IBM CREDIT CORPORATION
By: -----
Print Name: -----
Title: -----

IBM CREDIT CORPORATION

GUARANTY
(BY CORPORATION)

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

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

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

This Guaranty is assignable, shall be construed liberally in IBM Credit's favor, and shall inure to the benefit of and bind IBM Credit's and Guarantor's respective successors, personal representatives and assigns, and also benefit any of IBM Credit's existing or future affiliates that may extend credit to Customer.

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

Guarantor waives: notice of the acceptance of this Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance, any right of contribution from other guarantors, and dishonor; notices of amount of indebtedness of Customer outstanding at any time; notices of the number and amount of advances made by IBM Credit to Customer in reliance on this Guaranty; notices of any legal proceedings against Customer; notice and hearing as to any prejudgment remedies; and any other demands and notices required by law. Guarantor further waives all rights of set-off and all counterclaims against IBM Credit or Customer.

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

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

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

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

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

This Guaranty is submitted by Guarantor to IBM Credit (for IBM Credit's acceptance or rejection thereof) at IBM Credit's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM Credit to Customer. If accepted, this Guaranty shall be deemed to have been made at IBM Credit's above specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and in all other respects by the laws of the State of New York without giving effect to the principles of conflicts of laws. Guarantor, to induce IBM Credit to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at IBM Credit's sole discretion and election, in courts within the State of New York. Guarantor consents and submits to the jurisdiction of any local, state or federal court located within that state. Guarantor waives any right to transfer or change the venue of any litigation brought against Guarantor by IBM Credit in accordance with this paragraph.

Any delay by IBM Credit, or its successors, affiliates or assigns in exercising any or all rights granted IBM Credit under this Guaranty shall not operate as a waiver of those rights. Furthermore, any failure by IBM

Credit, its successors, affiliates or assigns, to exercise any or all rights granted IBM Credit under this Guaranty shall not operate as a waiver of IBM Credit's right to exercise any or all of them later.

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

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

WITNESS: PFSWEB, INC.

- - - - -

(Print Name) By:

- - - - -

Name: - - - - -

Title: - - - - -

(SEAL)

Date: September ____, 2001

Guarantor's Address:

- - - - -

- - - - -

ATTEST:

- - - - -

(Secretary)

(Print Name)

- - - - -

SECRETARY'S CERTIFICATE

I hereby certify that I am the Secretary of the following named corporation and that execution of the above Guaranty was ratified, approved and confirmed by the Shareholders at a meeting, if necessary, and pursuant to a resolution of the Board of Directors of the corporation at a meeting of the Board of Directors duly called, and which is currently in effect, which resolution was duly presented, seconded and adopted and reads as follows:

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

IN WITNESS WHEREOF and as Secretary of the named corporation I have hereunto set my hand and affixed the corporate seal on this _____ day of September , 2001.

PFSWEB, INC.

(SEAL)

(Secretary)

IBM CREDIT CORPORATION

NOTES PAYABLE SUBORDINATION AGREEMENT

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

Ladies and/or Gentlemen:

BSD Acquisition Corp., with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("BSD"), may become indebted to Priority Fulfillment Services, Inc. ("PFS"). PFS represents that no part of said indebtedness has been assigned to or subordinated in favor of any other person, firm or corporation and that PFS does not hold any security therefor. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Financing Agreement referred to below.

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

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

While this instrument remains in effect, PFS will not assign to or subordinate in favor of any other person, firm or corporation any right, claim or interest in or to the Secondary Obligations or commence or join with any other creditor in commencing any bankruptcy, reorganization or insolvency proceeding against

BSD. IBM Credit may at any time, in its discretion, renew or extend the time of payment of all or any portion of the Primary Obligations or waive or release any collateral which may be held therefor and IBM Credit may enter into such agreements with BSD as IBM Credit may deem desirable without notice to or further assent from PFS and without adversely affecting IBM Credit's rights hereunder in any manner whatsoever.

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

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

Dated _____ .

PRIORITY FULFILLMENT SERVICES, INC.

By: _____

Name: _____

Title: _____

500 North Central Expressway
Plano, TX 75074

To: IBM Credit Corporation

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

BSD ACQUISITION CORP.

By: _____

Name: _____

Title: _____

ACCEPTED:

IBM CREDIT CORPORATION

By: _____

Name: _____

Title: _____

- -----)
) SS
 - -----)

(Notary Public)

/

=====

DAISYTEK, INCORPORATED
BSD ACQUISITION CORP.
PRIORITY FULFILLMENT SERVICES, INC.
PFSWEB, INC.
PRIORITY FULFILLMENT SERVICES EUROPE B.V.

STOCK PURCHASE AGREEMENT

SEPTEMBER 25, 2001

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT dated as of September 25, 2001 (this "AGREEMENT"), is entered into by and among Daisytek, Incorporated, a Delaware corporation ("DAISYTEK"), PFSweb, Inc., a Delaware corporation ("PFSWEB"), Priority Fulfillment Services, Inc., a Delaware corporation and wholly owned subsidiary of PFSweb ("PFS"), BSD Acquisition Corp., a Delaware corporation and an indirect minority owned subsidiary of PFS ("PURCHASER"), and Priority Fulfillment Services Europe B.V., a Netherlands corporation ("PFS EUROPE"). Capitalized terms used in this Agreement and not otherwise defined are defined in Section 1 of this Agreement.

RECITALS

WHEREAS, Daisytek beneficially owns and holds of record 100% of the issued and outstanding capital stock of (a) Business Supplies Distributors, Inc., a Delaware corporation ("BSD"), (b) Business Supplies Distributors Europe B.V., a Netherlands corporation ("BSD EUROPE"), and (c) BSD (Canada) Inc., an Ontario corporation ("BSD CANADA" and together with BSD and BSD Europe, the "BSD COMPANIES");

WHEREAS, the board of directors of Purchaser and Daisytek, respectively, believe it to be in the best interest of Purchaser and Daisytek that Purchaser and Daisytek enter into this Agreement pursuant to which, among other things, Purchaser will acquire all the outstanding capital stock of each of the BSD Companies (the "STOCK PURCHASE"), and in furtherance thereof, the board of directors of Purchaser and Daisytek has each approved the Stock Purchase and this Agreement;

WHEREAS, pursuant to this Agreement, among other things, Purchaser will purchase from Daisytek and Daisytek will sell to Purchaser the BSD Stock (as hereinafter defined) in return for cash;

NOW, THEREFORE, for and in consideration of the mutual representations, warranties and agreements hereinafter set forth and other good and valuable consideration, and upon the terms and subject to the conditions hereinafter set forth, the parties do hereby agree as follows.

Section 1. DEFINITIONS. As used in this Agreement, the following terms shall have the following meanings:

"AAA" is defined in Section 7.12 of this Agreement.

"AFFILIATES" means, with respect to any person, any entity controlling, controlled by or under common control with such designated person. For the purposes of this definition, "CONTROL" shall have the meaning specified as of the date of this Agreement for that word in Rule 405 promulgated by the Securities and Exchange Commission (and any successor commission or agency having similar powers) under the Securities Act. For Daisytek, "Affiliate" shall specifically include ISA (as defined below) even if it is not otherwise included in the above definition except for Section 7.2(f) where ISA shall not be included in such definition.

"AGREEMENT" is defined in the opening paragraph of this Agreement.

"BANK ONE RELEASE" means the release from Bank One in which Bank One releases its lien on certain shares of BSD Stock.

"BSD" is defined in the recitals of this Agreement.

"BSD CANADA" is defined in the recitals of this Agreement.

"BSD CANADA COMMON STOCK" is defined in Section 2.3 of this Agreement.

"BSD COMMON STOCK" is defined in Section 2.3 of this Agreement.

"BSD COMPANIES" is defined in the recitals of this Agreement.

"BSD EUROPE" is defined in the recitals of this Agreement.

"BSD EUROPE STOCK" is defined in Section 2.3 of this Agreement.

"BSD STOCK" is defined in Section 2.3 of this Agreement.

"BUSINESS DAY" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in The City of New York.

"CASH CONSIDERATION" is defined in Section 2.3 of this Agreement.

"CHARTER" means the certificate of incorporation or other incorporation document as of the date hereof.

"CLOSING" is defined in Section 2.2 of this Agreement.

"CLOSING DATE" is defined in Section 2.2 of this Agreement.

"CODE" is defined in Section 3.9 of this Agreement.

"CONSENTS" is defined in Section 6.1 of this Agreement.

"CONSIDERATION" is defined in Section 2.3 of this Agreement.

"DAISYTEK" is defined in the opening paragraph of this Agreement.

"DAISYTEK'S BANK ACCOUNT" means the account or accounts to be designated by Daisytek before the Closing.

"DISCLOSURE SCHEDULE" shall collectively refer to all schedules attached hereto in response to the representations, warranties and disclosures made in Section 3 of this Agreement. Disclosure on any schedule hereto or subsection thereof constitutes disclosure pursuant to any and all other sections of this Agreement and on all other applicable schedules and subsections thereof to the extent such disclosure is sufficient on its face to indicate it is applicable to such other schedules and subsections thereof.

"IBM" means International Business Machines Corporation, International Sales and Services B.V. and their Affiliates.

"IBM AGREEMENT" is defined in Section 6.2 of this Agreement.

"IBM GUARANTIES" means the (a) Continuing Contract of Parent Guaranty of Payment by Daisytek International Corporation on behalf of BSD and BSD Europe dated as of October 1, 1999 in favor of International Business Machines Corporation and International Sales and Services B.V., (b) Continuing Contract of Parent Guaranty of Payment by Daisytek International Corporation on behalf of BSD dated as of July 13, 1999 in favor of International Business Machines Corporation, (c) Continuing Contract of Parent Guaranty of Payment by Daisytek International Corporation on behalf of BSD Europe dated as of July 13, 1999 in favor of International Business Machines Corporation, and (d) any other guaranties by Daisytek International Corporation or any of its Affiliates on behalf of any of the BSD Companies in favor of International Business Machines Corporation and International Sales and Services B.V. or any of their Affiliates.

"IBM RELEASE" is defined in Section 6.2 of this Agreement.

"INDEMNITEE" is defined in Section 7.2 of this Agreement.

"INDEMNITOR" is defined in Section 7.2 of this Agreement.

"INTERCOMPANY AMOUNT" is defined in Section 2.3 of this Agreement.

"ISA" means ISA International, PLC and its subsidiaries.

"KNOWLEDGE" means, with respect to any fact, circumstance, event or other matter in question, the actual knowledge of such fact, circumstance, event or other matter after reasonable inquiry of (a) an individual, if used in reference to an individual, or (b) any officer or director of such party, if used in reference to a Person that is not an individual.

"LOSSES" is defined in Section 7.2 of this Agreement.

"MATERIAL ADVERSE EFFECT" means any circumstance, change in, or effect on, the business or assets of any of the BSD Companies that individually, or in the aggregate with any other circumstances, changes in, or effects on, the business or assets of any of the BSD Companies, taken as a whole would materially adversely affect the ability of Purchaser to operate or conduct the business substantially in the manner in which it is currently operated or conducted by the BSD Companies.

"MASTER DISTRIBUTOR AGREEMENTS" means each of the following:

(a) Master Distributor Agreement (#BSD-OEM001) dated October 1, 1999 between IBM Japan, Ltd. and Business Supplies Distributors, Inc., as amended;

(b) Master Distributor Agreement dated July 28, 1999 by and among International Business Machines Corporation, Priority Fulfillment Services Europe B.V. and Business Supplies Distributors Europe B.V., as amended;

(c) Master Distributor Agreement dated December 1, 1998 between International Sales and Services B.V. and Priority Fulfillment Services Europe B.V., as amended by Amendment Number 1 thereto dated October 1, 1999, Amendment Number 2 thereto dated June 1, 2000 and Amendment Number 3 thereto dated December 1, 2000 by and among International Sales and Services B.V., Priority Fulfillment Services Europe B.V. and Business Supplies Distributors Europe B.V.;

(d) Master Distributor Agreement dated October 1, 1999 by and among International Business Machines Corporation, Priority Fulfillment Services, Inc. and Business Supplies Distributors, Inc., as amended;

(e) Master Distributor Agreement (#OEM8331) dated December 17, 1998 between International Sales and Services B.V. and Priority Fulfillment Services Europe B.V., as amended by Amendment Number 1 to Master Distributor Agreement (#OEM8331) dated October 1, 1999 by and among International Sales and Services B.V., Priority Fulfillment Services Europe B.V. and Business Supplies Distributors Europe B.V.;

(f) Master Distributor Agreement #OEM10242 dated July 16, 1999 by and among International Business Machines Corporation and Daisytek, Inc. as assigned by Assignment of Agreement (#OEM10242) dated August 17, 1999 by and among International Business Machines Corporation, Daisytek, Inc. and Business Supplies Distributors, Inc.; and

(g) any other master distributor agreement entered into by or on behalf of any of the BSD Companies prior to or as of the date hereof and not listed above.

"PARENT" means Daisytek International Corporation, a Delaware corporation and sole stockholder of Daisytek.

"PERSON" means any individual, corporation, partnership, limited liability company, association, trust, unincorporated organization, entity or group.

"PFS" is defined in the opening paragraph of this Agreement.

"PFS AUSTRALIA" is defined in Section 5.1 of this Agreement.

"PFS EUROPE" is defined in the opening paragraph of this Agreement.

"PFS MEXICO" is defined in Section 5.1 of this Agreement.

"PFSWEB" is defined in the opening paragraph of this Agreement.

"PFSWEB GROUP" means PFSweb, Purchaser, PFS, PFS Europe and their Affiliates.

"PURCHASE RIGHTS" means the rights granted by the PFS Group to each of Daisytek (or at the election of Daisytek or one of its Affiliates) and ISA to purchase IBM products from the PFS Group (subject to product availability) by allowing Daisytek and ISA to place a total of four orders for IBM products as follows: (a) each of Daisytek (or at the election of Daisytek or one of its Affiliates) and ISA may place an order for IBM product on any business day in the month of October 2001 (one in the United States and one in Europe) and a second order for IBM product on any business day in the month of January 2002 (one in the United States and one in Europe); (b) each order placed under (a) above is subject to a three percent (3%) discount off of then currently published prices provided that Daisytek (or at the election of Daisytek or one of its Affiliates) and ISA remit payment for such order in cash upon confirmation of order and confirmation of prompt delivery and subject to such cash payment not being due for back ordered products until such products are available; (c) all orders placed by Daisytek (or at the election of Daisytek or one of its Affiliates) will be shipped by the PFS Group to up to two (2) separate locations for each order within the United States as designated by Daisytek (or at the election of Daisytek or one of its Affiliates); and (d) each order placed by ISA will be shipped by the PFS Group to one location for each order in Europe to be designated by ISA.

"PURCHASER" is defined in the opening paragraph of this Agreement.

"PURCHASER'S BANK ACCOUNT" means the account or accounts to be designated by Purchaser before the Closing.

"REQUISITE REGULATORY APPROVALS" is defined in Section 6.1 of this Agreement.

"SALES FORCE SERVICES AGREEMENTS" means (a) Sales Force Services Agreement by and among Business Supplies Distributors, Inc., Priority Fulfillment Services, Inc. and Global Marketing Services, Inc. dated as of October 1, 1999; (b) Agreement between International Business Machines Corporation and Business Supplies Distributors, Inc. for Sales Force Services effective as of October 1, 1999; (c) Agreement between International Business Machines Corporation and Business Supplies Distributors, Inc. for Sales Force Services effective as of July 1, 2000; and (d) any other agreement for sales force services or similar services entered into by or on behalf of any of the BSD Companies prior to or as of the date hereof and not listed above.

"SECURITIES ACT" means the Securities Act of 1933, as amended.

"STANDARD EXCEPTIONS" is defined in Section 3.2 of this Agreement.

"STOCK PURCHASE" is defined in the recitals of this Agreement.

"TAX RETURNS" is defined in Section 3.9 of this Agreement.

"TAXES" means any and all taxes, fees, levies, duties, tariffs, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any government or taxing authority, domestic or foreign, including, without limitation: taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation, or net

worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value added, or gains taxes; and license, registration and documentation fees.

"TRANSITION SERVICES AGREEMENT" means that certain Transition Services Agreement dated as of May 25, 2001 by and between PFSweb and Parent.

Section 2. THE STOCK PURCHASE.

2.1. The Stock Purchase. At the Closing Date and subject to and upon the terms and conditions of this Agreement and the applicable laws of Texas, Purchaser will purchase from Daisytek, and Daisytek agrees to sell to Purchaser, all of the shares of BSD Stock for the consideration set forth below in Section 2.3.

2.2. Closing. As promptly as practicable after the satisfaction or waiver of the conditions set forth in Section 6 hereof, the parties will cause the Stock Purchase to be consummated (the "CLOSING") at 10:00 a.m. Central Time at the offices of Munsch Hardt Kopf & Harr, P.C. 1445 Ross Avenue, 4000 Fountain Place, Dallas, Texas 75202, on any mutually agreed upon date (the "CLOSING DATE"); provided that if all such conditions are not met or waived prior to September 30, 2001 (unless extended) this Agreement shall terminate.

2.3. Purchase Price.

(a) In consideration of an aggregate cash purchase price of Nine Hundred Twenty Three Thousand Dollars (\$923,000) (the "CASH CONSIDERATION") and the Purchase Rights (together with the Cash Consideration, the "CONSIDERATION"), Daisytek will transfer to Purchaser (i) 100% of the shares of common stock of BSD set forth on Exhibit A for an aggregate number of shares equal to 100 shares of common stock, \$.01 par value per share (the "BSD COMMON STOCK"), (ii) 100% of the shares of common stock of BSD Europe set forth on Exhibit A for an aggregate number of shares equal to 40 shares of capital stock, NLG (Dutch guilders) 1,000 par value per share (the "BSD EUROPE STOCK"), and (iii) 100% of the shares of common stock of BSD Canada set forth on Exhibit A for an aggregate number of shares equal to 1,000,010 shares of common stock, no par value per share (the "BSD CANADA COMMON STOCK" and together with the BSD Common Stock and the BSD Europe Stock, the "BSD STOCK").

(b) In addition to the Consideration to be paid in Section 2.3(a) above, on the Closing Date, Purchaser and Daisytek shall settle all intercompany balances between Parent, Daisytek and its wholly owned subsidiaries, on the one hand, and each of the BSD Companies, on the other hand, by payment from Daisytek to the BSD Companies (as directed by Purchaser) of an aggregate amount of Five Million Two Hundred Six Thousand Three Hundred Thirteen Dollars and Sixty Seven Cents (\$5,206,313.67) with Five Million One Hundred Sixty Six Thousand Seven Hundred Seventy One Dollars and Forty Seven Cents (\$5,166,771.47) paid at Closing (the "INTERCOMPANY AMOUNT") and Thirty Nine Thousand Five Hundred Forty Two Dollars and Twenty Cents (\$39,542.20) to be paid within five (5) business days thereafter. Upon payment of such amounts, any and all amounts owed to or from any of the BSD Companies to or from Parent, Daisytek

or any of its wholly owned subsidiaries as of the Closing Date shall be deemed paid in full.

2.4. Surrender of Certificates; Payment and Delivery of Stock Purchase Consideration. At the Closing, (i) Daisytek will deliver to Purchaser the various certificates, instruments, and documents referred to in Section 6.3 below, (ii) Purchaser will deliver to Daisytek the various certificates, instruments, and documents referred to in Section 6.2 below, (iii) Daisytek will deliver to Purchaser stock certificates (except for BSD Europe whose shares are not certificated) evidencing the BSD Stock duly endorsed in blank or accompanied by stock powers duly executed in blank, in proper form for transfer, (iv) Purchaser will deliver to Daisytek the Cash Consideration by wire transfer of immediately available funds in the lawful money of the United States of America to Daisytek's Bank Account, (v) Daisytek will deliver to the BSD Companies (as directed by Purchaser) the Intercompany Amount by wire transfer of immediately available funds in the lawful money of the United States of America to Purchaser's Bank Account, (vi) Daisytek shall deliver to Purchaser the Bank One Release, and (vii) IBM shall execute and deliver the IBM Agreement.

Section 3. REPRESENTATIONS AND WARRANTIES OF DAISYTEK. Daisytek hereby represents and warrants to Purchaser as of the date hereof and as of the Closing Date, except as set forth on the Disclosure Schedule, that:

3.1. Organization and Qualification. Each of the BSD Companies is a corporation validly existing and in good standing under the laws of the jurisdiction of its incorporation with the requisite legal and corporate power to own its property and to carry on its business as presently conducted. Each of the BSD Companies is qualified and authorized to transact business and is in good standing as a foreign corporation in the jurisdictions set forth on the Disclosure Schedule. Daisytek has delivered a true, complete and correct copy of the Charter, bylaws and minute book (if any) for each of the BSD Companies, each as amended to date, to counsel for Purchaser.

3.2. Power; Authority. Daisytek has all requisite legal power and authority to enter into this Agreement and to carry out and perform its obligations under the terms hereof. All corporate action on the part of Daisytek and its directors and stockholders necessary for the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and for the authorization, sale and delivery of the BSD Stock has been taken. This Agreement is the legal, valid and binding obligation of Daisytek, enforceable in accordance with its terms, except (a) as limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, and (b) that the availability of equitable relief is subject to the discretion of the court before which any proceeding therefor may be brought (together with (a), the "STANDARD EXCEPTIONS"). The execution and delivery of this Agreement by Daisytek does not conflict with or result in any violation of or default under any contract or other agreement applicable to Daisytek or any of the BSD Companies (except for any contracts or agreements created by Daisytek before October 25, 2000 or by or through any member of the PFSweb Group at anytime), and does not require any consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority, whether foreign or domestic, or instrumentality or other Person (except as may be created by or through any member of the PFSweb Group).

3.3. Brokers and Finders' Fees. Daisytek has not incurred, and will not incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement, the Stock Purchase or any transaction contemplated hereby.

3.4. Consents. All proceedings and all consents necessary to sell and transfer the BSD Stock and to authorize, execute and deliver this Agreement have been taken and obtained by Daisytek (except as for any consents created by or through any member of the PFSweb Group).

3.5. Capitalization. Except as created by Daisytek before October 25, 2000 or by or through any member of the PFSweb Group at anytime:

(a) BSD. The authorized capital stock of BSD consists of 100 shares of common stock, \$.01 par value per share of which only 100 shares are issued and outstanding, which are held of record by Daisytek as set forth on Exhibit A.

(b) BSD Europe. The authorized capital stock of BSD Europe consists of 200 shares of capital stock, NLG (Dutch guilders) 1,000 par value per share of which only 40 shares are issued and outstanding, which are held of record by Daisytek as set forth on Exhibit A.

(c) BSD Canada. The authorized capital stock of BSD Canada consists of an unlimited number of shares of common stock, no par value per share of which only 1,000,010 shares are issued and outstanding, which are held of record by Daisytek as set forth on Exhibit A.

(d) There are no issued or outstanding shares of capital stock or equity interests of any kind or any issued or outstanding subscriptions, options, warrants, rights, calls, contracts, commitments, understandings or agreements to purchase or otherwise acquire or relating to the issuance of any shares or other securities of any of the BSD Companies (except for the BSD Stock being transferred hereunder), including, without limitation, any rights of conversion or exchange under any outstanding securities or other instruments, other than this Agreement.

(e) None of the BSD Companies owns any capital shares or other proprietary interests, directly or indirectly, in any Person.

3.6. Validity of Securities. Except for liens, charges, claims or encumbrances created by Daisytek before October 25, 2000 or by or through any member of the PFSweb Group, imposed by this Agreement or restrictions generally imposed by applicable securities laws, the BSD Stock, when issued, sold and delivered in accordance with the terms of this Agreement against payment therefor, will be free and clear of all liens, charges, claims, preemptive rights and encumbrances, including, but not limited to, the lien of Bank One that will be released at Closing.

3.7. Material Contracts. Except (a) for the Master Distributor Agreements and the Sales Force Services Agreements, (b) as set forth on the Disclosure Schedule, or (c) as created by Daisytek prior to October 25, 2000 or with or by or through any member of the PFSweb Group

at anytime, none of the BSD Companies is a party to any contract or agreement (i) providing for payments by or to any of them in an aggregate amount of \$25,000 or more in the ordinary course of business, consistent with past practice, or otherwise or (ii) that is not terminable without premium or penalty upon not more than thirty (30) days notice.

3.8. Employees. Except for Persons that may be or have been hired by any member of the PFSweb Group to be an employee of any BSD Company, none of the BSD Companies has any employees. After October 25, 2000, none of the BSD Companies has established or maintained any employee benefit plan.

3.9. Taxes. Except as created by or through any member of the PFSweb Group and assuming that all information relevant to this Section 3.9 that was provided by any member of the PFSweb Group to Parent, Daisytek or any of their Affiliates is true, correct and complete in all material respects:

(a) (i) BSD and BSD Canada have filed all material returns and reports in respect of Taxes ("TAX RETURNS") that they were required to file for tax periods ending after March 9, 2000, and to Daisytek's Knowledge, all such Tax Returns are true, correct and complete in all material respects, and (ii) to Daisytek's Knowledge, BSD and BSD Canada have filed all Tax Returns that they were required to file for tax periods ending on or prior to March 9, 2000, and to Daisytek's Knowledge, all such Tax Returns are true, correct and complete in all material respects.

(b) (i) BSD and BSD Canada have paid all Taxes shown on Tax Returns filed for tax periods ending after March 9, 2000, and (ii) to Daisytek's Knowledge, BSD and BSD Canada have paid all Taxes shown on Tax Returns filed for tax periods ending on or prior to March 9, 2000.

(c) (i) Neither BSD nor BSD Canada received formal or informal notice after March 9, 2000 of any adjustment relating to Tax Returns and, to Daisytek's Knowledge, no basis exists for any such adjustment, and (ii) to Daisytek's Knowledge, neither BSD nor BSD Canada received formal or informal notice on or prior to March 9, 2000 of any adjustment relating to Tax Returns.

(d) To Daisytek's Knowledge, no action or proceeding for the collection or assessment of Taxes is pending or threatened against BSD or BSD Canada or any corporation that was included in the filing of a tax return with any BSD Company on a consolidated or combined basis.

(e) (i) Neither BSD nor BSD Canada filed a consent under Section 341(f) of the Internal Revenue Code of 1986, as amended (the "CODE") after March 9, 2000, and (ii) to Daisytek's Knowledge, neither BSD nor BSD Canada filed a consent under Code Section 341(f) on or prior to March 9, 2000.

(f) (i) After March 9, 2000, neither BSD nor BSD Canada waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency, and (ii) to Daisytek's Knowledge before March 9, 2000, neither

BSD nor BSD Canada waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(g) No power of attorney that is currently in force has been granted by BSD or BSD Canada with respect to any matter relating to Taxes.

(h) To Daisytek's Knowledge, there are no Tax liens on any assets of BSD or BSD Canada, except for liens for Taxes not yet due and payable.

Section 4. REPRESENTATIONS AND WARRANTIES OF PURCHASER AND PFS.

Purchaser and PFS hereby represent and warrant to Daisytek as of the date hereof and as of the Closing Date that:

4.1. Organization and Qualification. Purchaser is a corporation validly existing and in good standing under the laws of the State of Delaware with the requisite legal and corporate power to own its property and to carry on its business as presently conducted and proposed to be conducted by it. Purchaser is qualified and authorized to transact business and is in good standing as a foreign corporation in each jurisdiction in which the failure so to qualify would have a material adverse effect on its business, properties, prospects or financial condition.

4.2. Power; Authority. Purchaser and PFS have all requisite legal power and authority to enter into this Agreement and to carry out and perform their obligations under the terms hereof. All corporate action on the part of each of Purchaser and PFS and their directors and stockholders necessary for the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, and for the authorization and payment of the Consideration for the BSD Stock has been taken. This Agreement is the legal, valid and binding obligation of each of Purchaser and PFS, enforceable in accordance with its terms, except as limited by the Standard Exceptions. The execution and delivery of this Agreement by Purchaser and PFS do not conflict with or result in any violation of or default under any contract or other agreement applicable to Purchaser and PFS, and do not require any consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality or other Person.

4.3. Brokers and Finders' Fees. Purchaser has not incurred, and will not incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or any similar charges in connection with this Agreement, the Stock Purchase or any transaction contemplated hereby.

4.4. Consents. All proceedings and all consents necessary to purchase the BSD Stock and to authorize, execute and deliver this Agreement have been taken and obtained by Purchaser.

4.5. Investment Intent. Purchaser acknowledges that the BSD Stock has not been registered under the Securities Act and that the BSD Stock may not be resold absent such registration or unless an exemption is available. Purchaser is acquiring the BSD Stock for its own account, for investment purposes only and not with a view toward distribution thereof. Purchaser qualifies as an "accredited investor" as such term is defined in Rule 501(a) promulgated pursuant to the Securities Act.

4.6. Knowledge and Experience. Purchaser has such knowledge and experience in financial, tax and business matters, and in particular, investments in securities, so as to enable it to utilize the information made available to it to evaluate the merits and risks of an investment in the BSD Stock and in the BSD Companies and to make an informed investment decision with respect thereto. Purchaser is not relying on Daisytek or any of the BSD Companies or any of their employees or agents with respect to the legal, tax, economic and related considerations of an investment in the BSD Stock, and Purchaser has relied on the advice of, or has consulted with, only its own advisors. Purchaser has significant prior investment experience and has a sufficient net worth to sustain a loss of its entire investment in the BSD Companies in the event such a loss should occur.

4.7. No Obligations Incurred. No member of the PFSweb Group at anytime has obligated Parent, Daisytek or their Affiliates under the terms of any contract, agreement or arrangement (whether written or oral) with IBM or its Affiliates that is not being released by the IBM Release.

4.8. Taxes.

(a) BSD Europe has filed all Tax Returns that it was required to file, and to the Knowledge of the PFSweb Group, all such Tax Returns are true, correct and complete in all material respects.

(b) BSD Europe has paid all Taxes shown on the Tax Returns.

(c) BSD Europe has not received formal or informal notice of any adjustment relating to Tax Returns and, to the Knowledge of the PFSweb Group, no basis exists for any such adjustment.

(d) To the Knowledge of the PFSweb Group, no action or proceeding for the collection or assessment of Taxes is pending or threatened against BSD Europe.

(e) BSD Europe has not filed a consent under Code Section 341(f).

(f) BSD Europe has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(g) No power of attorney that is currently in force has been granted by BSD Europe with respect to any matter relating to Taxes.

(h) To the Knowledge of the PFSweb Group, there are no Tax liens on any assets of BSD Europe, except for liens for Taxes not yet due and payable.

Section 5. ADDITIONAL AGREEMENTS. Each of the parties hereto agrees that the following provisions of this Section 5 shall survive Closing and hereby agree as follows:

5.1. PFS Mexico and PFS Australia. Each of the parties hereto acknowledges and agrees that notwithstanding the obligation of Parent as set forth in Section 7.2 of the Asset Purchase Agreement by and among PFSweb, PFS, Daisytek and Parent dated as of May 25, 2001

or as set forth in any other agreement, Priority Fulfillment Services de Mexico, S.A. de C.V. ("PFS MEXICO") and Priority Fulfillment Services Australia PTY. LTD. ("PFS AUSTRALIA"), each a wholly-owned subsidiary of Daisytek, shall be allowed to continue, among other things, to purchase IBM products from IBM and/or IBM's master distributors and return IBM products to IBM and/or its master distributors upon terms that are at least as favorable as are available to other wholesale distributors of IBM products in such countries, respectively. Daisytek agrees to change the names of PFS Mexico and PFS Australia as soon as reasonably practicable following the Closing to names not containing the words "Priority Fulfillment Services" or "PFS."

5.2. Future Sales and Returns of IBM Products. In its capacity as a master distributor of IBM products, the PFSweb Group will allow Daisytek and its Affiliates to continue, among other things, to purchase and return IBM products from IBM and/or IBM's master distributors on terms that are at least as favorable as are available to other wholesalers of IBM products. In addition, the PFSweb Group will:

- (a) Pass through to resellers, including Daisytek and its Affiliates, marketing programs specified by IBM and administer such programs according to IBM's guidelines;

- (b) Administer and disburse funds or offerings passed through to resellers, including Daisytek and its Affiliates, in a proportional and equitable manner;

- (c) Treat resellers, including Daisytek and its Affiliates, equitably and fairly and not discriminate among them with regard to marketing programs and product allocation; and

- (d) Ensure that resellers, including Daisytek and its Affiliates, are satisfied with the master distributor's product marketing activities, including product explanation and ongoing support.

This Section 3 is in addition to, and does not preclude or supersede, any rights of Daisytek or any of its Affiliates under any other agreement or arrangement in which Daisytek or its Affiliates is or becomes a wholesale distributor of IBM products.

5.3. Access to Records. Each party hereto will cooperate fully with each other party hereto and their Affiliates, counsel, accountants and other agents as such party shall designate in connection with their compliance with any litigation, controversy, regulatory or financial reporting matters, including, but not limited to audits and preparation of tax returns, insofar as it relates to the BSD Companies and/or the business conducted by any of them prior to the Closing. In addition, each party hereto will make available their personnel and provide access to the books and records of each of the BSD Companies, to the extent in its possession, upon request of any other party hereto or their Affiliates in the event that such information is required by such party or their Affiliates in connection with their compliance with any litigation, controversy, regulatory or financial reporting matters, including, but not limited to audits and preparation of tax returns, insofar as it relates to the BSD Companies and/or the business conducted by any of them prior to the Closing.

5.4. Taxes. Daisytek will timely file all United States and Canada Tax Returns and timely pay all Taxes payable thereunder for BSD and BSD Canada for the year ended March 31, 2001 and for the period from that date through the Closing Date. Purchaser will timely file all Tax Returns and timely pay all Taxes thereunder for BSD Europe for the year ended March 31, 2001 and for the period from that date through the Closing Date.

Section 6. CONDITIONS TO THE STOCK PURCHASE.

6.1. Conditions to Obligations of Each Party to Effect the Stock Purchase. The respective obligations of each party to this Agreement to effect the Stock Purchase shall be subject to the satisfaction at or prior to the Closing Date of the following conditions:

(a) Legality. No federal, state or foreign statute, rule, regulation, executive order, decree or injunction shall have been enacted, entered, promulgated or enforced by any court or governmental authority which is in effect and has the effect of making the Stock Purchase illegal or otherwise prohibiting the consummation of the Stock Purchase.

(b) Regulatory Matters. All authorizations, consents, orders or approvals of, or declarations or filings with, and all expirations of waiting periods imposed by, any governmental body, agency or official ("CONSENTS") which are necessary for the consummation of the transactions contemplated hereby, other than immaterial Consents the failure to obtain which would have no Material Adverse Effect, shall have been filed, have occurred or have been obtained (all such permits, approvals, filings and consents and the lapse of all such waiting periods being referred to as the "REQUISITE REGULATORY APPROVALS") and all such Requisite Regulatory Approvals shall be in full force and effect.

6.2. Additional Conditions to the Obligations of Daisytek. The obligations of Daisytek to consummate and effect this Agreement and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by Daisytek:

(a) Delivery of Consideration. Purchaser shall deliver, or cause to be delivered, to Daisytek the Cash Consideration by wire transfer of immediately available funds in the lawful money of the United States of America to Daisytek's Bank Account.

(b) Release of IBM Guaranties. Each of the IBM Guaranties shall be terminated and released pursuant to a release by IBM (the "IBM RELEASE") to the satisfaction of Daisytek, including, but not limited to, the release of any and all of Parent's, Daisytek's or their Affiliates' obligations under the Sales Force Services Agreements.

(c) Representations, Warranties and Covenants. The representations and warranties of Purchaser and PFS in this Agreement shall be true and correct in all material respects on and as of the Closing Date as though such representations and warranties were made on and as of such time and Purchaser shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Closing Date.

(d) Certificate of Purchaser. At the Closing, Daisytek shall have been provided with:

(i) a certificate executed on behalf of Purchaser and PFS by their respective Chief Executive Officer or Chief Financial Officer, certifying (1) all representations and warranties made by Purchaser and PFS under this Agreement are true and correct in all material respects, and (2) all covenants, obligations and conditions of this Agreement to be performed by Purchaser and PFS on or before Closing have been so performed in all material respects; and

(ii) a certificate of the Secretary of Purchaser as to the resolutions duly adopted by the board of directors of Purchaser authorizing the execution, delivery and performance of this Agreement and the transactions contemplated hereby, which resolutions must be in full force and effect as of the Closing.

(e) No Material Adverse Changes. There shall not have occurred any event, fact or condition that has had or reasonably would be expected to have a Material Adverse Effect on Purchaser.

(f) Satisfactory Form of Legal and Tax Matters. The form, scope and substance of all legal and tax matters contemplated hereby and all closing documents and other papers delivered hereunder shall be reasonably acceptable to Daisytek's counsel and accountants.

(g) Future Sales of IBM Products. IBM shall execute and deliver to Parent and Daisytek an agreement (the "IBM AGREEMENT") in a form to the satisfaction of Parent and Daisytek in which, among other things, IBM agrees to cause its master distributors to treat resellers, including Daisytek and its Affiliates, equitably and fairly.

(h) Supplement to Transition Services Agreement. PFS shall deliver to Daisytek a supplement to the Transition Services Agreement in a form to the satisfaction of Daisytek.

6.3. Additional Conditions to the Obligations of Purchaser. The obligations of Purchaser to consummate and effect this Agreement and the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Closing Date of each of the following conditions, any of which may be waived, in writing, exclusively by Purchaser:

(a) Delivery of Stock Certificates. Daisytek shall deliver, or cause to be delivered, to Purchaser the stock certificates (except for BSD Europe whose shares are not certificated) evidencing the BSD Stock duly endorsed in blank or accompanied by stock powers duly executed in blank, in proper form for transfer.

(b) Delivery of Intercompany Amount. Daisytek shall deliver, or cause to be delivered, to Purchaser the Intercompany Amount by wire transfer of immediately available funds in the lawful money of the United States of America to Purchaser's Bank Account.

(c) Representations, Warranties and Covenants. The representations and warranties of Daisytek in this Agreement shall be true and correct in all material respects on and as of the Closing Date as though such representations and warranties were made on and as of such time, and Daisytek shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Closing Date.

(d) Certificate of Daisytek. At the Closing, Purchaser shall have been provided with:

(i) a certificate executed on behalf of Daisytek by its Chief Executive Officer or Chief Financial Officer, certifying (1) all representations and warranties made by Daisytek under this Agreement are true and correct in all material respects, and (2) all covenants, obligations and conditions of this Agreement to be performed by Daisytek on or before Closing have been so performed in all material respects; and

(ii) a certificate of the Secretary of Daisytek as to the resolutions duly adopted by the board of directors of Daisytek authorizing the execution, delivery and performance of this Agreement and the transactions contemplated hereby, which resolutions must be in full force and effect as of the Closing.

(e) Third Party Consents. Daisytek and each of the BSD Companies shall have obtained the consents listed on the Disclosure Schedule, as well as the consent or approval of each other Person whose consent or approval shall be required under any agreement or instrument in order to permit the consummation of the transactions contemplated hereby except those which the failure to obtain would not, individually or in the aggregate, have a Material Adverse Effect.

(f) Satisfactory Form of Legal, Tax and Accounting Matters. The form, scope and substance of all legal, tax and accounting matters contemplated hereby and all closing documents and other papers delivered hereunder shall be reasonably acceptable to Purchaser's counsel and accountants.

(g) No Material Adverse Changes. There shall not have occurred any event, fact or condition that has had or reasonably would be expected to have a Material Adverse Effect.

(h) Resignation of Board of Directors and Officers of the BSD Companies. Daisytek shall use commercially reasonable efforts to cause the board of directors of each of the BSD Companies and the officers of each of the BSD Companies to submit their resignations.

(i) Delivery of Bank One Release. Daisytek shall deliver to Purchaser the Bank One Release.

(j) Delivery of Corporate Records of BSD Companies. Daisytek shall have delivered to Purchaser's counsel (i) the minute books (if any) of each of the BSD

Companies containing records of all proceedings, consents, actions and meetings of the board of directors, committees of the board of directors (if any) and stockholders of each of the BSD Companies, and (ii) the stock ledger, journal and other records reflecting all stock issuances and transfers with respect to the capital stock of each of the BSD Companies.

(k) Transfer of Accounts. Except for Persons employed by any member of the PFSweb Group, Daisytek shall cause all Persons having signatory authority over or with respect to all accounts, lock boxes, safe deposit boxes and powers of attorney of any of the BSD Companies to relinquish and transfer such authority to the Purchaser or as Purchaser shall direct.

Section 7. MISCELLANEOUS.

7.1. Amendment and Waiver.

(a) Any term, agreement or condition contained in this Agreement may be amended with, and only with, the consent of Daisytek, Purchaser and PFS.

(b) This Agreement shall not be altered, amended or supplemented except by written agreement in accordance with Section 7.1(a) above. Any waiver of any term, agreement or condition contained in this Agreement shall not be deemed a waiver of any other term, agreement or condition, and any waiver of any default in any such term, agreement or condition shall not be deemed a waiver of any later default thereof or of any default of any other term, agreement or condition.

7.2. Indemnification. From and after the Closing, each party hereto (in such capacity, an "INDEMNITOR") shall, subject to the limitations hereof, reimburse, indemnify and hold harmless each other party (in such capacity, an "INDEMNITEE") and their respective officers, directors, employees, agents, representatives, and successors and assigns from and against and in respect of each of the following:

(a) any and all damages, losses, deficiencies, liabilities, claims, demands, charges, costs and expenses of every nature and character whatsoever, including, without limitation, reasonable attorneys' fees and costs (collectively, the "LOSSES") that result from, relate to or arise out of:

(i) any misrepresentation or breach of warranty of the Indemnitor in this Agreement or any of the Disclosure Schedules provided hereunder; and

(ii) the failure of the Indemnitor to perform any agreement or covenant on its part required to be performed on or after the Closing Date; and

(b) any and all actions, suits, claims, proceedings, investigations, demands, assessments, audits, fines, judgments, costs and other expenses incident to any of the foregoing or to the successful enforcement of this Section.

(c) The sum of all Losses incurred by the Indemnitee in the aggregate must exceed \$10,000 before such party shall be entitled to indemnification hereunder; provided, however, once such Losses exceed \$10,000, such party shall be entitled to indemnification for all Losses provided further that the total liability of Indemnitor for such Losses shall not exceed an amount equal to \$250,000.

(d) All of the representations and warranties of the parties contained herein shall expire ninety (90) days after the Closing Date, except for the representations and warranties contained in Section 3.5, which shall survive indefinitely and Sections 3.9 and 4.8, which shall survive until the applicable statute of limitations has expired. Accordingly, no Indemnitor shall have any liability or indemnification obligations hereunder in respect of claims asserted against it ninety (90) days after the Closing Date, except for liabilities or indemnification obligations for claims related to a breach of the representations and warranties contained in Sections 3.5, 3.9, and 4.8.

(e) In addition to the indemnification obligations set forth above, each member of the PFSweb Group hereby jointly and severally agrees to reimburse, indemnify and hold harmless Parent, Daisytek and their Affiliates, from and against any Losses arising from any third party claim arising from any action or inaction taken by any member of the PFSweb Group or the BSD Companies under any of the Master Distributor Agreements, the Sales Force Services Agreements, and the IBM Guaranties. The parties hereto agree that any and all Losses to be indemnified under this Section 7.2(e) shall not be subject to the limitations set forth in Section 7.2(c) above.

(f) As between the parties hereto and their Affiliates and except as expressly set forth herein with respect to third party claims, each party hereto hereby releases each other party hereto and its respective Affiliates from any Losses as a result of the existence, performance, failure to perform or termination of any of the Master Distributor Agreements, the Sales Force Services Agreements, and the IBM Guaranties.

7.3. Facsimile Signature. This Agreement shall be deemed duly executed by Daisytek upon the delivery of its executed signature page by facsimile transmission to counsel for Purchaser. This Agreement shall be deemed duly executed by Purchaser, PFS, PFSweb, and PFS Europe upon the delivery of their executed signature pages by facsimile transmission to counsel for Daisytek.

7.4. Severability. The invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity, legality or enforceability of the remainder hereof in such jurisdiction or the validity, legality or enforceability hereof, including any such provision, in any other jurisdiction, it being intended that all rights and obligations of the parties hereunder shall be enforceable to the fullest extent permitted by law.

7.5. Successors and Assigns. All representations, warranties, and agreements of the parties contained in this Agreement or made in writing in connection herewith, shall, except as otherwise provided herein, be binding upon and inure to the benefit of the parties hereto and their respective successors, heirs, devisees, legal representatives and permitted assigns.

7.6. Notices. All notices of communication required or permitted hereunder shall be in writing and may be given by (a) depositing the same in United States mail, addressed to the party to be notified, postage prepaid and registered or certified with return receipt requested, (b) delivering the same in person to an officer or agent of such party, (c) sending by a nationally recognized overnight delivery service or (d) telecopying the same with electronic confirmation of receipt.

If to Daisytek or BSD Companies:

c/o Daisytek, Incorporated
1025 Central Expressway South, Suite 200
Allen, Texas 75013
Attention: Mr. John D. Kearney, Sr.
Telecopy No.: 972-424-4604

with a copy to:

Munsch Hardt Kopf & Harr, P.C.
4000 Fountain Place
1445 Ross Avenue
Dallas, Texas 75202-2790
Attention: A. Michael Hainsfurther, Esq.
Telecopy No.: 214-855-7584

If to Purchaser or PFS:

c/o Priority Fulfillment Services, Inc.
500 North Central Expressway
Plano, Texas 75074
Attention: Mark Layton
Telecopy No.: 972-881-0145

with a copy to:

Andrews & Kurth, L.L.P.
1717 Main Street, Suite 3700
Dallas, Texas 75201
Attention: Patrick C. Sargent, Esq.
Telecopy No.: 214-659-4401

and a copy to:

Wolff & Samson, P.A.
5 Becker Farm Road
Roseland, New Jersey 07068
Attention: Morris Bienenfeld, Esq.
Telecopy No.: 973-740-1407

or at such other address or counsel as any party hereto shall specify pursuant to this Section 7.6 from time to time.

7.7. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements between Texas residents entered into and to be performed entirely within Collin County, Texas.

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

7.9. Headings. The headings used herein are solely for the convenience of the parties and shall not serve to modify or interpret the text of the Sections at the beginning of which they appear.

7.10. Construction and Representation. The parties understand and acknowledge that they have each been represented by counsel in connection with the preparation, execution and delivery of this Agreement. This Agreement shall not be construed against any party for having drafted it.

7.11. Rights of the Parties. Except as otherwise expressly provided in Section 7.5, nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity other than the parties hereto any rights or remedies under or by reason of this Agreement or any transaction contemplated hereby.

7.12. Arbitration. In the event of a claimed breach of this Agreement by any of the parties hereto, except for a dispute where the remedy sought is specific performance or another form of extraordinary equitable relief, such dispute shall be submitted to binding arbitration in Collin County, Texas in accordance with the terms of this Section 7.12. The party who is alleging that a dispute exists shall send a notice of such dispute to all other parties to this Agreement, setting forth in detail the dispute, the parties involved and the position of such party

with respect to the dispute. If agreement as to the matters detailed in the preceding sentence is not reached within twenty (20) business days after receipt of the notice, then, within ten (10) business days thereafter, the parties shall mutually select an arbitrator who is experienced in commercial arbitration. If the parties are unable to agree upon the selection of the arbitrator, the arbitrator shall be selected by the American Arbitration Association (the "AAA"). Any disputes as to the rules for conducting the arbitration shall be resolved by reference to the AAA rules for commercial arbitration by the arbitrator. The arbitrator shall schedule a hearing on the disputed issues within forty (40) business days after his or her appointment, and the arbitrator shall render his or her decision after the hearing, in writing, as expeditiously as possible, and shall deliver copies of such decision to the parties. A default judgment may be entered against any party who fails to appear at the arbitration hearing. Such decision and determination shall be final and unappealable and may be filed as a judgment of record in any jurisdiction designated by the successful party. The parties to this Agreement agree that this paragraph has been included to rapidly and inexpensively resolve any disputes among them with respect to the matters described above, and that this paragraph shall be grounds for dismissal of any court action commenced by any party with respect to a dispute arising out of such matters.

7.13. Covenant of Further Assurances. The parties hereto covenant and agree to execute and deliver any and all additional writings, instruments and other documents and take such further actions as shall be reasonably required or requested to effectuate the terms and conditions of this Agreement.

[THE NEXT PAGE IS THE SIGNATURE PAGE.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day first above written.

DAISYTEK: DAISYTEK, INCORPORATED,
a Delaware corporation

By: _____
Name: _____
Title: _____

PURCHASER: BSD ACQUISITION CORP.,
a Delaware corporation

By: _____
Name: _____
Title: _____

PFS: PRIORITY FULFILLMENT SERVICES, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

PFSWEB: PFSWEB, INC.,
a Delaware corporation

By: _____
Name: _____
Title: _____

PFS EUROPE: PRIORITY FULFILLMENT SERVICES EUROPE B.V.,
a Netherlands corporation

By: _____
Name: _____
Title: _____

EXHIBIT A
CAPITALIZATION

BSD:

Certificate Number	Number of Shares
001	100

BSD EUROPE:

The Deed of Incorporation for BSD Europe provides that no certificates for shares shall be issued. The ownership of the shares is registered in the shareholders register, which reflects Daisytek as the owner of 40 shares of capital stock of which 26 shares have been pledged to Bank One as security pursuant to the Credit Agreement dated as of December 18, 2000 by and among Daisytek, Incorporated, Daisytek International Corporation, Bank One, N.A., and Bank One, Texas, N.A.

BSD CANADA:

Certificate Number	Number of Shares - - ----- ----- ----- -----
---- C-001	
10 C-002	
1,000,000	
----- -----	
1,000,010	

DISCLOSURE SCHEDULE

Schedule 3.1

BSD is qualified and authorized to transact business in the State of Texas and is in good standing in the State of Texas.

OPERATING AGREEMENT
OF
BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

THIS OPERATING AGREEMENT is made as of the 2nd day of July, 2001 by and between PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("PFS"), and INVENTORY FINANCING PARTNERS, LLC, a Delaware limited liability company ("IFP"). PFS and IFP are individually and collectively referred to herein as a "Member" and "Members," respectively.

WITNESSETH:

WHEREAS, the Members have authorized the formation of BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC (the "Company") as a limited liability company pursuant to the provisions of the Delaware Limited Liability Company Act (the "Act"); and

WHEREAS, the Members wish to set forth herein the terms and provisions governing the operations and management of the Company.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and premises contained herein, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1. Formation; Term.

(a) Pursuant to Chapter 18, Title 6 of the Act, the Members have authorized and caused to be filed in the Office of the Delaware Secretary of State a Certificate of Formation (the "Certificate") thereby establishing the Company as a Delaware limited liability company. A true and correct copy of the Certificate is attached hereto as Exhibit A. The Company shall file an amendment to the Certificate if, and to the extent, required by the Act to reflect the provisions set forth herein.

(b) The Company shall be operated and shall conduct its business in accordance with the Act, except to the extent modified by the terms of this Agreement.

(c) Unless (i) the Company is sooner dissolved in accordance with Article 14 of this Agreement or the provisions of the Act or (ii) the term is extended pursuant to Article 14 of this Agreement, the term of existence of the Company shall expire on December 31, 2050 (the "Term").

ARTICLE 2. Name; Principal Office; Registered Office and Agent.

(a) The business and affairs of the Company shall be conducted under the name of BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC.

(b) The address of the Company's initial registered office in the State of Delaware shall be 1013 Centre Road, Wilmington, Delaware, and the registered agent at such office shall be Corporation Service Company. The Company shall maintain its principal office in such location as the Manager (as hereinafter defined) shall determine to be necessary and appropriate for the proper conduct of the business of the Company.

(c) The following documents shall be maintained at the principal office of the Company:

(i) a current list of the full name and last known business address of each Member set forth in alphabetical order and the date on which each person or entity became a Member;

(ii) information regarding the amount of cash and a description and statement of the agreed value of any other property contributed by each Member;

(iii) a copy of the Certificate and all amendments thereto;

(iv) a copy of this Agreement and all amendments hereto;

(v) copies of the Company's Federal and state income tax returns and annual financial statements; and

(vi) Minutes of every annual meeting, special meeting and court-ordered meeting and all written consents obtained from Members for actions taken by Members without a meeting.

(d) Such documents shall be available for inspection and copying by any Member or its authorized representatives during ordinary business hours upon reasonable notice from, and at the expense of, such Member.

(e) The foregoing shall not restrict the power and authority of the Manager to change the name, registered office, registered agent or principal office of the Company from time to time.

ARTICLE 3. Limited Purpose; Operations; Title to Company Property.

(a) The sole purpose of the Company shall be to purchase, sell and distribute IBM products, and to engage in any and all businesses, activities and enterprises related or incidental thereto, including without limitation, to purchase, own, operate, manage, lease, sublease, possess, occupy, finance, borrow, mortgage, pledge, encumber, sell, transfer, assign, grant options with respect to, construct, expand, renovate, repair, maintain and otherwise deal with and in respect of real or personal property, or any kind or description, and otherwise engage in all such activities as are necessary, incidental or appropriate in connection with the proper and lawful operation of the foregoing; provided, however, in pursuing the foregoing, the Company shall not take any action or step, or omit or fail to take any action or step, which shall constitute a breach, violation or default under any law, rule, regulation, ordinance, order, decree, license, permit, franchise, authorization, contract, note, bond, indenture, instrument or agreement to which the Company or any of its property may be subject or bound. For the avoidance of doubt, the Company shall be the parent corporation of BSD Acquisition Corp., a Delaware corporation, which shall conduct the foregoing activities.

(b) The Company shall conduct its business and operations in accordance with the following provisions and shall:

(i) maintain books and records and bank accounts separate from those of any other person;

(ii) maintain its bank accounts and all its other assets separate from those of any other person or entity;

(iii) hold regular Company meetings, as appropriate, to conduct the business of the Company and observe all other limited liability company formalities;

(iv) hold itself out to creditors and the public as a legal entity separate and distinct from any other entity;

(v) prepare separate tax returns and financial statements;

(vi) conduct business in its own name and use separate stationery, invoices and checks;

(vii) not commingle its assets or funds with those of any other person;

(viii) not assume, guarantee or pay the debts or obligations of any other person;

(ix) pay its own liabilities and expenses only out of its own funds;

(x) pay salaries of its own employees from its own funds;

(xi) correct any known misunderstanding regarding its separate identity;

(xii) not identify itself as a division of any other person or entity; and

(xiii) maintain adequate capital in light of its contemplated business operations.

(c) All property owned by the Company shall be owned by the Company as an entity and, to the extent permitted by applicable law, no Member shall have any ownership interest in any Company property in its individual name or right, and each Member's interest in the Company shall be personal property for all purposes.

ARTICLE 4. Members.

(a) As of the date hereof, the Members are PFS and IFP. Except as provided in this Agreement, no other person, corporation, partnership, limited liability company or other entity shall become a Member of the Company. The Members shall have the rights, duties and

obligations granted to and imposed upon them under the Act, except as and to the extent modified by the terms of this Agreement.

(b) No Member may resign from the Company prior to the dissolution and winding up of the Company's business and affairs. If a Member attempts to resign in violation of the provisions of this Article 4(b), such act shall, as to the Company and the other Members, be void and of no force and effect, nor shall such attempted resignation entitle any Member to receive the fair value of its interest in the Company prior to the dissolution and winding up of the Company's business and affairs.

(c) Subject to the terms set forth herein, the interests of the Members in the Company (each an "LLC Interest") are as follows: IFP - 51%; and PFS - 49%.

(d) Except where specifically indicated otherwise, an LLC Interest shall be deemed to refer to and include both an Economic Interest (as hereinafter defined) and a Voting Interest (as hereinafter defined). As used herein, the term "Economic Interest" means the economic rights and interests associated with a Member's LLC Interest, including the economic rights and interests described in the Act and in this Agreement. As used herein, the term "Voting Interest" means all rights, interests and responsibilities, other than the Economic Interest, associated with a Member's LLC Interest, including, without limitation, the right to receive notice of, attend Members' meetings regarding, and to vote on or consent to matters for which the approval or consent of the Members is required or permitted hereunder. The Voting Interest (rather than the Economic Interest) associated with a Member's LLC Interest shall be counted for purposes of determining the presence of a quorum at meetings of Members, whether Members holding the requisite percentage of LLC Interests have voted in favor of any matter presented to the Members for their approval and whether Members holding the requisite percentage of LLC Interests have consented to any action taken without a meeting (collectively, the "Voting Purposes").

ARTICLE 5. Capital Contributions; Capital Accounts.

(a) The Members agree to contribute to the capital of the Company the cash and other property set forth on Exhibit B attached hereto and incorporated herein (hereinafter, each Member's "Capital Contribution").

(b) Except as otherwise set forth herein, no Member shall, solely by reason of being a Member, have any obligation to make any additional capital contribution or loan to the Company or guaranty any indebtedness or obligation of the Company.

(c) Contributions of capital to the Company by the Members shall not bear interest.

(d) No Member shall have the right to withdraw or reduce its capital contribution to the Company or receive the return of such capital contribution, except as otherwise provided in this Agreement.

(e) A separate capital account (each a "Capital Account") shall be maintained for each Member in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv) of the Internal Revenue Code (the "Code"). Consistent therewith, each Member's Capital Account shall be credited with (i) the amount of cash and the fair market value of any other property (net of liabilities to which the contributed property is subject) or services contributed by such Member and (ii) the amount of any net profit or items thereof, allocated to that Member pursuant to Article 7 hereof. Each Member's Capital Account shall be charged with (iii) the amount of cash and the fair market value of any other property (net of liabilities assumed by such Member and liabilities to which such property is subject) paid or distributed to such Member, and (iv) the Member's share of losses or items thereof, allocated to that Member pursuant to Article 7 hereof. The Capital Accounts shall be adjusted by any other adjustments required by Treasury Regulation Section 1.704-1(b)(2)(iv).

(f) The maintenance of the Capital Accounts shall in all cases be as required by the Code, and the regulations thereunder (the "Regulations"), and any inconsistencies between the terms of this Agreement and the Code and the Regulations shall be resolved in favor of the Code and the Regulations. In the event that there shall be any change to the provisions of the Code or any Regulations and the application of such change under this Agreement shall result in material economic harm to any Member, the Members shall use reasonable good faith efforts to negotiate amendments to this Agreement to compensate such Member for such harm; provided, however, that such amendments shall not materially affect a Member's rights to distributions hereunder.

ARTICLE 6. Distributions.

(a) Subject to the restrictions, if any, of any loan agreement, credit agreement, note, bond or other instrument or agreement to which the Company is or may be subject or bound at any time, for each fiscal year of the Company (or portion thereof on a pro rated basis), all Cash Flow (as defined in Article 6(d) hereof) shall be distributed to the Members in the following order of priority: first, to IFP until it has received a one-time amount equal to its Capital Contribution; second, to IFP until it has received an amount equal to a 35% cumulative annual return on its Capital Contribution; third, to PFS until it has received a one-time amount equal to its Capital Contribution; fourth, to PFS until it has received an amount equal to a 35% cumulative annual return on its Capital Contribution; and fifth, to the Members, pro rata, in accordance with their respective Capital Accounts. Notwithstanding the foregoing, no distribution shall be made if, after giving effect thereto, the net worth of the Company shall be less than the aggregate initial Capital Contributions of the Members.

(b) The aforesaid distributions set forth in the preceding paragraph shall be determined, annually, in accordance with the Company's annual financial statements, and payment thereof shall be made within 30 days following the completion of such financial statements, but, in any event, not later than April 1 following each fiscal year.

(c) For purposes of this Agreement, "Cash Flow" means for each fiscal year of the Company, gross revenues of the Company from operations, minus all operating expenses, as determined, on an accrual basis, in accordance with generally accepted accounting principles consistently applied, except that the following rules shall apply:

(i) Capital contributions and loans to the Company shall not be included in Cash Flow;

(ii) Depreciation of any kind shall not be a deduction from Cash Flow;

(iii) Reserves that the Manager may reasonably establish from time to time shall be a deduction from Cash Flow, such reserves to include, without limitation, (A) working capital reserves to reflect the difference between accounts payable and accounts receivable and (B) reserves deemed necessary or appropriate by the Manager to fund the Company's operations, satisfy liabilities, repay indebtedness, capital expenditures, acquisitions or other transactions;

(iv) Capital expenditures shall be a deduction from Cash Flow to the extent such capital expenditures are in excess of reserves previously established for such expenditures and are not paid with proceeds from insurance;

(v) Insurance proceeds received on account of rental or business interruption shall be included in Cash Flow;

(vi) Amounts released from reserves for distribution shall be an increase in Cash Flow; and

(vii) Amortization of any indebtedness of the Company or any part thereof, shall be a deduction from Cash Flow.

(d) No Member who is entitled to a distribution pursuant to this Agreement shall be entitled to demand and receive such distribution in any form other than cash.

(e) No Member having a negative balance in its Capital Account shall be required to contribute funds to the Company in order to restore its Capital Account to zero.

(f) Notwithstanding the foregoing, not later than April 1 of each year, the Company shall make distributions (the "Tax Distributions") to each Member in an amount equal to the estimated federal and state income tax liability arising from such Member's membership interest in the Company during the immediately prior year (based upon a tax rate reflecting the highest applicable federal and state rates for such Member for such year).

ARTICLE 7. Allocation of Profits and Losses.

(a) All Profits as determined in accordance with Section 7(d) herein shall be allocated among the Members as follows:

(i) First, Profits shall be allocated to all of the Members in the amount of and in proportion to the excess, if any, of (A) the aggregate distributions which have been paid, or are payable, to such Member as of the last day of the current year; less (B) the aggregate amount of Profits previously allocated to such Member pursuant to this Section 7(a)(i) for all prior years; and

(ii) Second, all remaining Profits shall be allocated to all of the Members in proportion to their respective LLC Interests.

(b) All Losses as determined in accordance with Section 7(d) hereof shall be allocated among the Members in proportion to their respective Capital Accounts.

(c) Notwithstanding Articles 7(a) and (b) hereof:

(i) Profits and Losses shall be specifically allocated (the "Regulatory Allocations") if and to the extent necessary to comply with the Regulations under Code Section 704(b) (the "704(b) Regulations"), all as determined by the Tax Matters Partner (as defined in Section 8(e) below).

(ii) If Regulatory Allocations have been made, then subsequent allocations of Profits and Losses (the "Curative Allocations") shall be made, so that the net result of all allocations of Profits and Losses pursuant to Sections 7(a) and (b) and this Sections 7(c) in the aggregate shall, as quickly as possible and to the extent possible without violating the constraints prescribed by the 704(b) Regulations, be the same as if no allocations had been made pursuant to this Article 7(c), all as determined by the Tax Matter Partner.

(iii) In furtherance of this Section 7(c), all items of Losses attributable to a liability of the Company shall be specifically allocated to the Member that bears the economic risk of loss for such liability and such Member shall be allocated items of Profits to the extent that there is a net decrease in the minimum gain attributable to such portion of such liability, all in accordance with the 704(b) Regulations as determined by the Tax Matters Partner.

(d) "Profits" and "Losses" shall mean, for each fiscal year, an amount equal to the Company's taxable income or loss for such year, determined in accordance with Code Section 703(a), provided that all items of income, gain, loss or deduction required to be separately stated pursuant to Code Section 703(a)(1) shall be included in taxable income and loss, except that:

(i) any income that is exempt from federal income tax shall be added to such taxable income or loss;

(ii) any expenditure of the Company described in Code Section 705(a)(2)(B) or treated as such pursuant to the 704(b) Regulations shall be subtracted from taxable income or loss;

(iii) income, gain, losses and deductions, as determined for federal income tax purposes, with respect to any property contributed to the capital of the Company or owned by the Company if and when the Members' Capital Accounts are revalued in accordance with the 704(b) Regulations shall be determined with respect to such asset's fair market value in accordance with the 704(b) Regulations (the "Gross Asset Value") as determined by the Tax Matters Partner;

(iv) in the event that any of the Company's assets is adjusted to reflect its Gross Asset Value in accordance with the 704(b) Regulations, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses; and

(v) to the extent an adjustment to the adjusted tax basis of any of the Company's assets pursuant to Code Section 734(b) or Code Section 743(b) is required pursuant to the 704(b) Regulations to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Member's LLC Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses.

(e) Income, gain, losses and deductions, as determined for federal income tax purposes, shall be allocated in accordance with the allocation of the corresponding items of Profits and Losses except that income, gain, losses and deductions as determined for federal income tax purposes with respect to any property with a Gross Asset Value that differs from its adjusted basis for federal income tax purposes shall be allocated so as to reconcile the difference between such adjusted basis and such Gross Asset Value, in any manner permitted under Code Section 704(c) and the Regulations thereunder as determined by the Tax Matters Partner. Tax credits shall be allocated to the Members in proportion to their respective LLC Interests. Allocations pursuant to this Section 7(e) are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, or distributions pursuant to any provision of this Agreement.

(f) In the event that any Member's LLC Interest changes during the year, then allocations of Profit and Losses shall be made in any manner permitted under Code Section 706 and the Regulations thereunder as determined by the Tax Matters Partner to take into account such varying interests.

ARTICLE 8. Management.

(a) The management and control of the business and affairs of the Company shall be vested in its manager (the "Manager"). The sole Manager shall be an individual who shall not then be a current officer, director or employee of PFS or any subsidiary thereof. The initial Manager shall be Joe Farrell. The Manager shall prepare, and submit to the Members for approval, an annual budget (as the same may be modified or revised from time to time, the "Budget") setting forth projected revenue and expenses of the Company and its subsidiaries for each upcoming fiscal year, together with such additional information as any Member may reasonably request. The Manager shall have the complete power and authority to manage and control the operations of the Company and is authorized to take any and all actions and steps, and execute and deliver on behalf of the Company, any and all documents, instruments and agreements, as the Manager may deem necessary or appropriate from time to time; provided, however, without the prior approval of the Members, the Manager shall not incur any liability or obligation on behalf of the Company or any subsidiary thereof or take any other action binding upon the Company or any subsidiary thereof in an amount which exceeds the corresponding amount therefor set forth in the applicable approved

Budget by more than 15%. Subject to the prior written consent of the Members, the Manager may appoint one or more officers or representatives of the Company and may authorize such officers or representatives to act on behalf of, and to enter into contracts, understandings and agreements in the name of, the Company.

(b) The Manager is hereby designated to serve as and exercise all rights, powers and duties as "Tax Matters Partner," as such term is defined and used in Section 6231(a)(7) of the Code and the Regulations. In its capacity as Tax Matters Partner, the Manager shall cause the preparation and filing of all Company tax returns and shall, on behalf of the Company, make such tax elections as he shall determine to be in the best interests of the Members. The Tax Matters Partner may consent to extensions relating to such returns and revoke such tax elections as it believes may be in the best interests of the Members. In addition, the Tax Matters Partner shall file all other tax forms, documents or other writings with respect to the business and operations of the Company as shall be required by any governmental agency or authority having jurisdiction to require such forms, documents or other writings. The Tax Matters Partner shall provide the Members with prompt notice of any communications received from the Internal Revenue Service, together with copies of such communications.

(c) The Manager shall be entitled to reasonable compensation and benefits as shall be mutually agreed, from time to time, by the Manager and the Members. The Manager and any officers or representatives of the Company appointed by the Manager shall perform their respective duties hereunder in good faith, in a manner they reasonably believe to be in the best interests of the Company and with such care as an ordinarily prudent person in a like position would use under similar circumstances. The Manager and such officers and representatives (in performing their obligations hereunder) shall be fully protected, and shall not be liable to the Company or to any Member, for acts performed or omitted by them or their agents or representatives for and on behalf of the Company in furtherance of its interests, including, without limitation, acts or omissions made in good faith based upon the records of the Company or the opinions of professionals employed by the Company.

(d) Upon not less than 30 days' prior written notice to all Members, the Members, or any of them, shall have the right to remove the Manager for Cause. As used herein "Cause" shall mean (i) the willful failure of the Manager to substantially perform his duties to the Company and its subsidiaries (after reasonable prior notice); (ii) misappropriation by the Manager of funds or property of the Company or any attempt by the Manager to secure any personal profit related to the business of the Company and not fairly disclosed to and approved by all of the Members; (iii) fraud, dishonesty, disloyalty, gross negligence or willful misconduct on the part of the Manager in the performance of his duties for the Company and its subsidiaries; (iv) the Manager's engaging in activities which are prohibited by state and/or federal laws prohibiting discrimination based on age, sex, race, religion or national origin or engaging in conduct constituting sexual harassment; or (v) a felony conviction of the Manager.

(e) In the event of the death, disability or voluntary resignation or retirement of the Manager or in the event the Manager is removed for Cause, the Members shall appoint a new Manager, provided, however, such new Manager shall not be a then current officer, director or employee of PFS.

(f) Except as otherwise set forth herein, any action to be taken by the Members, or any approval or consent required hereunder, shall be deemed taken, granted or given hereunder (i) without any requirement of notice or meeting, upon the unanimous action, approval or consent of the Members or (ii) upon the affirmative vote of Members holding a majority of the outstanding LLC Interests at a meeting of Members duly called by any Member upon not less than 30 days prior written notice (specifying the action to be taken or approval or consent to be granted or given) to all Members.

ARTICLE 9. Activities of Members. The Members may have and engage in any other activities, business, enterprises or investments without any liability to the Company arising therefrom, except that IFP covenants and agrees that for so long as it is a Member herein and for a two year period thereafter, IFP will not (i) directly or indirectly, own (except for minor holdings in publicly listed or traded companies), manage, operate, join, control or otherwise participate in, whether as a partner, director, shareholder or otherwise, any business competitive with the business of the Company, PFS or any of their respective subsidiaries; (ii) attempt in any manner to persuade any of the suppliers or customers of the Company, PFS or any of their respective subsidiaries to cease doing business or reduce the amount of business which any of such suppliers or customers has done or may contemplate doing with the Company, PFS or any of their respective subsidiaries; and (iii) whether directly or indirectly, and whether on its own behalf or as a consultant, advisor, agent, representative, shareholder, partner, independent contractor or in any capacity on behalf of any sole proprietorship, corporation, partnership, joint venture, person or other entity, employ any person who at any time during such period is or was an employee of the Company, PFS or any of their subsidiaries. IFP acknowledges that (i) the restrictive covenants set forth herein are necessary in order to protect and maintain the legitimate business interests of the Company and PFS and it is reasonable that the restrictive covenants set forth above are not limited by any specific geographic area; (ii) the remedy at law for any breach of this covenant by it will be inadequate and that, accordingly, the Company and PFS shall, in addition to all other available remedies (including without limitation seeking damages and an accounting for lost profits), be entitled to injunctive relief; (iii) if any of the covenants contained in this Section, or any part hereof, is hereinafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions; (iv) if any of the covenants contained in this Section, or any part hereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the court making such determination shall have the power to reduce the duration and/or geographic area of such provision and, in its reduced form, said provision shall then be enforceable; and (v) in the event that the courts of any one or more of any state having jurisdiction shall hold the above covenants wholly unenforceable by reason of the breadth of scope or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the right of the Company or PFS to the relief provided above in the courts of any other states within the geographical scope of such covenants, as to breaches of such covenants in such other respective jurisdictions, the above covenants as they relate to each state being, for this purpose, severable into diverse and independent covenants.

ARTICLE 10. Limitation of Liability. Except as otherwise provided by the Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company; and no Member, Manager,

employee, agent or representative of the Company shall be obligated personally for any such debt, obligation or liability of the Company, or for any debt, obligation or liability of any other Member, Manager, employee, agent or representative of the Company, by reason of being a Member, or acting as a Manager, employee, agent or representative of the Company.

ARTICLE 11. Transfer of Interests in the Company.

(a) Except as otherwise provided in this Article 11, a Member may not sell, assign, transfer, make gifts of or otherwise dispose of, or pledge, hypothecate or otherwise encumber, its LLC Interest or any part thereof in any manner whatsoever (such events being hereinafter sometimes collectively referred to as a "Transfer"), without the prior written consent of all of the Members (which consent shall not be unreasonably withheld), and any act in violation hereof shall be null and void as against the Company and the other Members.

(b) If an Insolvency Event (as herein defined) should occur with respect to a Member, or if a Member is subject to a court order which provides for the transfer of such Member's interest in the Company, the trustee in bankruptcy or other person succeeding to such Member's interest in the Company shall succeed only to such Member's economic rights and interests as described in the Act and in this Agreement and shall not be admitted as a Member of the Company or have the right to exercise any Voting Interests or consent rights of such Member unless (i) the other Members grant their unanimous written approval, which may be withheld in their sole and absolute discretion and (ii) such successor agrees in writing to be bound by and comply with all of the terms, provisions and conditions of this Agreement. As used herein, an "Insolvency Event" shall mean any of the events set forth in Section 18-304 of the Act with respect to a person or the occurrence of any of the events set forth (and upon the dates specified) in such Section with respect to a person.

ARTICLE 12. Additional Members.

(a) Any person or entity may become a Member of the Company upon (i) the written consent of all of the then Members and (ii) such person or entity agreeing in writing to be bound by and comply with all of the terms, provisions and conditions of this Agreement applicable to Members.

(b) A new Member may be entitled to any retroactive allocation of losses, income or expense deductions incurred by the Company as the Manager shall determine. The Manager may, in its sole discretion, at the time a new Member is admitted, close the Company's books (as though the Company's tax year had ended) or make pro rata allocations of losses, income and expense deductions to a new Member for that portion of the Company's tax year in which a new Member was admitted in accordance with the provisions of Section 706(d) of the Code and the Regulations promulgated thereunder.

(c) Each Member agrees to execute and deliver such amendments to, and modifications of, this Agreement as the Manager may deem necessary or appropriate in connection with or in respect of the admission of any additional Member as herein provided.

ARTICLE 13. Additional Capital. In the event the Members shall unanimously determine in good faith that, in addition to the Capital Contributions of the Members hereunder, further funds are required for the proper operations of the Company (including without limitation, any funds needed for working capital, any operating deficit or the purchase, lease, acquisition, expansion or construction of additional Company property), such additional capital shall be obtained from the Members in proportion to their LLC Interests or in such other proportion, and upon such terms and conditions, as they shall otherwise agree.

ARTICLE 14. Property Sale Events; Dissolution and Liquidation.

(a) As used herein, a "Property Sale" shall mean (i) the merger or consolidation of any entity owned by the Company with or into any other entity (other than a transaction in which the Company continues to own a controlling interest in the surviving entity of such transaction), (ii) the sale or transfer by the Company of all or substantially all of its assets and properties to an unrelated third party in a bona fide transaction or (iii) the sale or transfer by the Company of all or substantially all of its interest in any entity owned by it to an unrelated third party in a bona fide transaction.

(b) All of the terms and provisions of any and each Property Sale, including the consideration thereof and all matters relating thereto (including the form, terms and provisions of all Property Sale documents, agreements and instruments (the "Property Sale Documents")), shall be made by the Manager, subject to the unanimous prior written consent of the Members (which shall not be unreasonably withheld). Each Member agrees to execute and deliver any and all Property Sale Documents, and, to the extent required thereunder, to be jointly and severally liable with the other Members thereunder, as shall be requested by the Manager, provided that such request shall be made of all Members and provided further, however, that, notwithstanding the terms of any Property Sale Document (or the failure of any Member to execute and deliver the same), as among the Members, any liability or obligation arising under or in respect of such Property Sale Document shall be allocated among the Members in the proportion of their respective LLC Interests.

(c) All amounts paid or payable to the Company in connection with any Property Sale (the "Sale Proceeds") shall be applied and allocated as follows:

(i) first, to the payment of all costs and expenses incurred by the Company in connection with the Property Sale;

(ii) second, to the payment of all indebtedness and liabilities of the Company (including the establishment of such reserves as the Manager shall deem necessary or appropriate in respect of any anticipated or contingent liabilities arising from or relating to the Property Sale);

(iii) third, to the Members in proportion to their respective Capital Accounts; and

(iv) fourth, the remaining balance shall be paid to the Members in proportion to their respective LLC Interests.

(d) In the event the Sale Proceeds shall be payable over time or shall be payable in securities, notes or property other than cash ("Non-cash Proceeds"), then, to the extent practicable, the provisions of the preceding paragraph (c) above shall apply to such Non-cash Proceeds, as and when received, with the same force and effect as if paid in cash as of the effective date of the Property Sale.

(e) The Company shall be dissolved and its assets liquidated upon the earliest of (i) as promptly as practicable following the effective date of a Property Sale, if following such Property Sale, the Company has no material assets other than the Non-cash Proceeds arising therefrom, (ii) December 31, 2050, unless Members holding a majority of the LLC Interests held by the Members agree in writing, within one year prior to the expiration of the Term, to extend the Term; (iii) the unanimous determination of the Members to dissolve and liquidate the Company and terminate this Agreement; or (iv) the entry of a court order or judgment of dissolution.

(f) In the event of a dissolution of the Company for any reason, the Manager shall immediately commence to wind up the Company's affairs and shall liquidate the assets of the Company as promptly as possible, but in an orderly and businesslike manner.

(g) In the event of any liquidation and dissolution of the Company, after all indebtedness, liabilities and obligations of the Company, including all expenses of liquidation (and including the establishment of such reserves as the Manager shall deem necessary or appropriate in respect of any anticipated or contingent liabilities of the Company), shall have been paid or provided for, and all items of profit, loss, income, gain, loss, deduction and credit shall have been allocated in accordance with Article 7 hereof, any proceeds from the liquidation shall be applied and distributed in the order of priority set forth in paragraph (c) above.

ARTICLE 15. Books, Records and Reports. The Manager shall select the accountants for the Company. The Company shall keep proper and complete books of account in accordance with generally accepted accounting principles, consistently applied, at all times during its continuance, which books and records shall be maintained at the principal office of the Company and shall be available for inspection and copying upon reasonable notice. Except as otherwise provided herein, the Tax Matters Partner shall select the cash or accrual basis of accounting, as required by the Code, and shall make such decisions as required and as are necessary with respect to capitalization or expensing of items and the method of depreciation for both the books of account and for Federal income tax purposes. The Company shall provide to the Members an annual financial report, a copy of the Company tax return for each year by April 1st of the following calendar year and Form K-1 or such other form necessary for filing with the Members' income tax returns. The financial reports shall include a copy of the balance sheet, the statement covering the profits and losses of the Company, and with respect to the annual report, a statement showing the distribution made to such Member pursuant to Article 6 hereof and the amounts allocated to such Member pursuant to Article 7 hereof during or in respect of such year and the amount thereof reportable for state and Federal income tax purposes. Accountant's fees incurred by the Company

for accounting services necessary to comply with the terms of this Article are deemed to be a Company expense, payable out of Cash Flow.

ARTICLE 16. Fiscal Year. The fiscal year and the federal income tax year of the Company shall end on December 31 of each year.

ARTICLE 17. Modifications; Waivers. No amendment or modification of this Agreement shall be valid or effective unless in writing and signed by the Members holding not less than 66-2/3% of the LLC Interests held by the Members; provided that no modification or waiver of any breach or condition of this Agreement shall be effective against any party unless in writing and signed by the party or parties sought to be charged therewith. A waiver in one instance shall not be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

ARTICLE 18. Notices and Addresses. All notices or other communications given or made under this Agreement shall be in writing and shall be (a) personally delivered, (b) sent by certified mail, return receipt requested, postage prepaid or by reputable overnight courier providing a receipt against delivery or (c) sent by telecopy or facsimile transmission, provided that a copy thereof is concurrently delivered or sent in accordance with clause (a) or (b) above. Such notices or other communications shall be delivered or sent to the Members at their respective addresses set forth in the Company's records or such other address as any Member may specify in a notice to the other Members, and to the Company at its principal office specified in Article 2 of this Agreement. All notices shall be effective upon receipt.

ARTICLE 19. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

ARTICLE 20. Gender. As used herein, each of the masculine, feminine or neuter genders shall include the other genders, the singular shall include the plural and the plural shall include the singular, whenever appropriate to the context.

ARTICLE 21. Captions. Article titles or captions contained in this Agreement are inserted only as a matter of convenience and as reference and in no way define, limit, extend or describe the scope of this Agreement or the intent of any of the provisions hereof.

ARTICLE 22. Counterparts. This Agreement may be executed in one or more counterparts and each of such counterparts shall, for all purposes, be deemed to be an original, but all of the counterparts shall constitute one and the same instrument, and this Agreement shall be deemed effective on the date it is executed by the parties hereto.

ARTICLE 23. Covenant to Sign Documents. Each Member shall execute, with acknowledgment or affidavit if required, all documents and writings reasonably necessary or expedient in order to effectuate the terms and provisions hereof and the achievement of its purpose and as otherwise contemplated herein.

ARTICLE 24. No Waiver. The failure of a Member to insist on the strict performance of any covenant or duty required by this Agreement, or to pursue any remedy under the Agreement, shall not constitute a waiver of the breach or the remedy.

ARTICLE 25. Successors and Assigns. Subject to the restrictions on transferability contained in this Agreement, this Agreement and all of its provisions shall be binding on and inure to the benefit of the successors and assigns of the Members.

ARTICLE 26. Entire Agreement. This Agreement constitutes the entire understanding of the parties, and supersedes all prior or contemporaneous agreements among them, with respect to the subject matter hereof.

ARTICLE 27. Right of Partition. Each of the Members, for itself, its successors and assigns, hereby waives any and all rights of partition it may have under any and all applicable laws.

ARTICLE 28. Power of Attorney. Each Member hereby appoints the Manager as its true and lawful representative and attorney-in-fact in his name, place and stead to make, execute, sign and file any amendments to the Certificate now or hereafter required by law and any amendments necessary to reflect the admission of one or more new Members or any other amendment or modification hereof provided for herein and such instruments, documents and certificates which, from time to time, may be required by the laws of the United States of America, the State of Delaware or any other state in which the Company shall determine to do business, or any political subdivision or agency thereof, to execute, implement and continue the valid and subsisting existence of the Company. Such power of attorney is coupled with an interest and shall continue in full force and effect notwithstanding the subsequent death or incapacity of such party.

ARTICLE 29. Counsel. Each Member acknowledges that it has reviewed, or has had the opportunity to review, this Agreement with its own separate and independent counsel, and each Member has participated in the negotiation and drafting of this Agreement. Each Member further acknowledges that counsel to the Company may also serve as counsel to any or all of the Members, and counsel to any or all of the Members may also serve as counsel to the Company, in each case, in any related or unrelated matter and any and all conflicts of interest arising therefrom are hereby waived.

IN WITNESS WHEREOF, the undersigned have hereunto executed
this Agreement as of the day and year first aforesaid.

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name:
Title:

INVENTORY FINANCING PARTNERS, LLC

By: _____
Name:
Title:

EXHIBIT A
CERTIFICATE OF FORMATION
OF
BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

The undersigned, an authorized natural person, in order to form a limited liability company pursuant to the provisions and subject to the requirements of the State of Delaware (particularly Chapter 18, Title 6 of the Delaware Code and the acts amendatory thereof and supplemental thereto, and known, identified and referred to as the "Delaware Limited Liability Company Act"), does hereby certify:

FIRST: The name of the limited liability company is BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC.

SECOND: The address of the limited liability company's initial registered office and the name of the limited liability company's initial registered agent as required to be maintained by Section 18-104 of the Delaware Limited Liability Company Act are Corporation Service Company, 1013 Centre Road, Wilmington, Delaware 19805.

IN WITNESS WHEREOF, the undersigned has set his hand this 2nd day of July, 2001.

/s/ Morris Bienenfeld

Morris Bienenfeld
Authorized Representative

EXHIBIT B
CAPITAL CONTRIBUTIONS

Name	Capital Contribution
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Priority Fulfillment Services, Inc.	\$750,000
Inventory Financing Partners LLC	\$250,000

IBM GLOBAL FINANCING

PLATINUM PLAN AGREEMENT (WITH INVOICE
DISCOUNTING)

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

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IBM GLOBAL FINANCING

PLATINUM PLAN AGREEMENT (WITH RECEIVABLES DISCOUNTING)

THIS AGREEMENT is made on the date specified against the signature of IBM GF below among Suppliers Distributors S.A. with a registered number of RC Liege 208795 with an address of Rue Louis Bleriot 5, B-4460 Grace-Hollogne, Belgium ("SDSA"), and Business Supplies Distributors Europe BV a Netherlands company registered in Maastricht with a with a Belgian trade registration number of HR Maastricht 14062763 with an address of Markt 28, 6211 CJ Maastricht, The Netherlands ("BSDE") (SDSA and BSDE collectively, "YOU"), PFS Web B.V a Netherlands company registered IN Maastricht under the number 17109541 with a Belgian trade registration number of R.C. Liege 204162 ("PFS Web B.V.") (SDSA, BSDE and PFS Web B.V. collectively, the "Loan Parties) and IBM Belgium Financial Services N.V. with a registered number of R.C. Brussels451.673 with an address of Square Victoria Regina 1,BE-1210 Brussels VAT BE 424300467 ("IBM GF" or "US").

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

AGREEMENT

1. DEFINITIONS

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

"ACQUIRED RECEIVABLES": means the BSDE Receivables that you acquired from BSDE in connection with the Daisytek Stock Purchase Agreement.

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

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

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

"APPROVED CURRENCY" means any currency other than euro agreed from time to time by you and us to be an approved currency for the purposes of this Agreement;

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

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

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

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

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

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

"BSD": means Business Supplies Distributors, Inc.

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

"BSD COMPANIES": means BSD, BSDE. and BSD (Canada) Inc.;

"BSDE" means as defined in the caption;

"BSDE DEBTORS": means any Debtor required to make payment in respect to the Acquired Receivables;

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

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

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

"CLOSING DATE": MEANS 25 SEPTEMBER 2001;

"COLLATERAL" means the aggregate value minus \$500,000, in our assessment, of outstanding Receivables, Acquired Receivables and VAT Receivables we have purchased from you together with any Receivables Rights and any other assets, including stock-in-trade which are charged to us by way of a Lien and which is not subject to retention of title by any party other than us.

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

"CONCENTRATION RECEIVABLE": means an Eligible Receivable that, individually, or when aggregated with all other outstanding Accounts of the same Debtor and such Debtor's Affiliates, constitute more than five percent (5%) of the net outstanding balance of all your Eligible Receivables then outstanding for all your Debtors.

"CONCENTRATION DEBTOR": means at any time, any Debtor obligated to you with respect to, or on account of, a Concentration Receivable.

"CREDIT CHARGES": means our charges to you (as set out in the Schedule) for purchasing Supplier Invoices from an Authorised Supplier as set out in Section 3 of this Agreement and purchasing Receivables, Acquired Receivables and VAT Receivables from you pursuant to Section 4 of this Agreement;

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

"DAISYTEK": means Daisytek, Inc.

"DAISYTEK STOCK PURCHASE AGREEMENT": means the Stock Purchase Agreement dated September 26, 2001 among Daisytek, BSD A, and PFS.

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

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

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

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

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

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

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

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

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

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

"GUARANTOR": means Holdings, PFS and BSD A and any other party that delivers a guaranty in favour of us;

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

"IBM": means International Business Machines Corporation;

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

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

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

"INELIGIBLE RECEIVABLE": means any of the following: (i) any Receivable or Acquired Receivable or VAT Receivable which remains unpaid for more than 120 days after the date of the relevant Sales Invoice; (ii) all Receivables or Acquired Receivables or VAT Receivables of an individual Debtor where 50% or more of the relevant Debtor's aggregate outstanding balance remains unpaid for more than 120 days after the date of their respective Sales Invoices; (iii) any Receivable or Acquired Receivable where the Debtor is an affiliate of yours by means of common shareholders or officers, or where the Debtor is an officer, employee, agent, or shareholder of your company or Acquired Receivables payable by a BSDE Debtor that is an Affiliate of any Loan Party or BSDE, or an officer, employee, agent, guarantor, stockholder of Loan Party or an Affiliate of any Loan Party or BSDE, or is related to or has common shareholders, officers or directors with any Loan Party; (iv) any Receivable or Acquired Receivable arising from a consignment sale; (v) any Receivable or Acquired Receivable where the Debtor or BSDE Debtor is not a commercial entity, or is not resident in the countries of Austria, Belgium, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Portugal, Republic of Ireland, Spain, Sweden, Switzerland and the United Kingdom, or where the Debtor or BSDE Debtor is subject to legal proceedings, or any steps under Insolvency law or bankruptcy law or other law for the relief of debtors; (vi) any Receivable or Acquired Receivable which arises from incentive payments, rebates, discounts, credits and refunds from a Supplier; (vii) any Receivable, Acquired Receivable or VAT Receivable in respect of which there is a breach of any undertaking or warranty given to us, or any other obligation of yours relating to it; (viii) any Receivable or Acquired Receivable or VAT Receivable expressed in a currency other than the EURO or another currency approved by us; (ix) any Receivable or Acquired Receivable in respect of the sale of Products that have not yet been delivered by you, or in respect of services invoiced by you in advance of your full performance of such services; (x) those receivables listed in the Schedule as Ineligible Receivables; and (xi) any other Receivable or Acquired Receivable or VAT Receivable which we deem, in our discretion, to be ineligible except that, In the event we determine in our sole discretion to deem certain Receivables, Acquired Receivables or VAT Receivables to be ineligible pursuant to (xi) above, we will provide written notification to you of our determination of ineligibility of such Receivables, Acquired Receivables or VAT Receivables and such ineligibility shall be applied to such Receivables, Acquired Receivables or VAT Receivables arising from invoices dated one Business Day after the date of such notification.;

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

"IWCF": means that certain Inventory and Working Capital Financing Agreement among IBM Credit Corporation and Holdings, IFP, BSD A, PFS and PFSweb

"LIEN(S)": means any mortgage, pledge, lien, charge, assignment by way of security, hypothecation, security interest and floating charge or any other security agreement or arrangement relating to existing or future assets (including, without limitation, the deposit of monies or property with a person with the primary intention of affording such person a right of set-off or lien) but excluding any lien arising out of rights of consolidation, combination, netting or set-off over any current and/or deposit accounts with a bank or financial institution, where it is necessary to agree to

those rights in connection with the opening or operation of any bank accounts or in connection with a treasury management arrangement operated by you, in each case, in the ordinary course of your business or risk management provided the existence of such lien has been notified to us;

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

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

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

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

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

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

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

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

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

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

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

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

"PREPAYMENT": means any payment by us to you or made available to you under this Agreement on account of the purchase price of a Receivable, Acquired Receivable and/or VAT Receivable;

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

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

- (i) all the Authorised Supplier's rights as unpaid vendor and all other rights of the Authorised Supplier under or in relation to the relevant Supplier Invoice (whether such rights arise from or are created by statute, common law, contract or otherwise howsoever);

- (ii) documentary evidence of the Supplier Invoice or its performance or of any disputes arising;
- (iii) documents of title, warehouse keepers receipts, bills of lading, shipping documents, airway bills or similar documents;
- (iv) the benefit of all insurances;
- (v) all remittances, instruments, securities, bonds, guarantees and indemnities and accounting records;

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

"PURCHASE PRICE": means the amount payable by us to you in respect of the purchase of a Receivable or an Acquired Receivable being the Sales Invoice Price in relation to such Receivable or Acquired Receivable, or in the case of a VAT Receivable, the amount stated in your invoice to the Country of the Netherlands, less the Credit Charges and any other sums due to us in respect of the purchase of such Receivable, Acquired Receivable or VAT Receivable;

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

"RECEIVABLES RIGHTS": includes in relation to any Receivable and any Acquired Receivable, any of your following rights (i) all your rights by law or under the Sales Contract as an unpaid vendor including reservation of title rights; (ii) documentary evidence of the Sales Contract, or its performance, or of any disputes arising; (iii) documents of title, warehouse keepers receipts, bills of lading, shipping documents, airway bills or similar documents; (iv) the benefit of all insurances; (v) all remittances, instruments, securities, bonds, guarantees and indemnities and accounting records; any assets (other than Receivables and Acquired Receivables purchased by us pursuant to the terms of this Agreement) and any guarantee(s) which constitute security in respect of your obligations to us with respect to the purchase of Receivables, Acquired Receivables and VAT Receivables by us pursuant to this Agreement as set out in the Schedule);

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

"REPURCHASE PRICE": means a sum equivalent to the Purchase Price of a Receivable, Acquired Receivable or VAT Receivable plus all sums (if any) then outstanding and due to us in respect of any relevant Credit Charges relating to that Receivable, Acquired Receivable or VAT Receivable;

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

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

"SALES INVOICE PRICE": means the amount payable by the relevant Debtor as evidenced by a Sales Invoice in respect of the supply of Products (including Value Added Tax) less all and any credit notes, discounts and other deductions to which the relevant Debtor is entitled and of which he avails himself;

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

"SDSA" means as defined in the caption;

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

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

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

"SUPPLIER INVOICE": means a valid invoice issued by an Authorised Supplier in respect of your acquisition of Products from such Authorised Supplier;

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

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

"VAT RECEIVABLES" means a payment obligation of the Country of the Netherlands or Belgium pursuant to an invoice raised to the respective country for valid reimbursement of VAT paid by BSDE or SDSA to the Country of the Netherlands or Belgium (1) for products purchased from IBM or one of its subsidiaries and which products were sold by BSDE to customers outside the Country of the Netherlands or (2) by SDSA to customers outside the Belgium, (3) for products sold by BSDE to SDSA and (4) for products supplied by IBM Singapore to SDSA, subject to the limitation specified in the Schedule;

1.2 INTERPRETATION

In this Agreement:

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

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

2. CREDIT LIMIT

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

3. SUPPLIER PURCHASE FACILITY

- 3.1 SETTLEMENT OF SUPPLIER INVOICES

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

3.2 TITLE TO PRODUCTS

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

4. RECEIVABLES, ACQUIRED RECEIVABLES AND VAT RECEIVABLES DISCOUNTING FACILITY

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

4.1 PURCHASE AND PAYMENT OF RECEIVABLES, ACQUIRED RECEIVABLES AND VAT RECEIVABLES

- 4.1.1 As soon as possible on or after the Commencement Date and upon the terms and conditions of this Agreement you will deliver an Offer to sell to us with full title guarantee each and all Receivables, Acquired Receivables and VAT Receivables (together with all Receivable Rights in existence as at the Commencement Date). We will only accept each such Offer by crediting to your ledger account with us the Purchase Price of all such Receivables, Acquired Receivables and VAT Receivables upon such date. Upon doing so, our ownership of the Receivables, Acquired

Receivables and VAT Receivables that we have accepted
shall be complete.

- 4.1.2 You hereby agree to transfer ownership to us of all Receivables and VAT Receivables (together with all Receivables Rights) created after the Commencement Date until this Agreement ends, or we give you notice under Clause 4.1.12 that no more Receivables and/or VAT Receivables will be accepted from a date designated by us. Such Receivables and VAT Receivables shall vest in us the moment the Receivables are created and transfer of ownership of any such Receivables and VAT Receivables to us shall take place automatically and with immediate effect. On that day our receipt of the relevant Notifications and our ownership of such Receivables and VAT Receivables shall then be complete. We will credit to your ledger account with us the Purchase Price of all such Receivables and VAT Receivables upon such date.
- 4.1.3 You will pay any duties or similar charges including any Stamp Duty arising in connection with this Agreement and the transfer of the Receivables, Acquired Receivables and VAT Receivables to us.
- 4.1.4 After the Commencement Date, you will notify us in the manner agreed with us, and at the frequency stated in the Schedule of the invoice value of Receivables and Acquired Receivables, less any rebates or deductions or other credits given by you, or to which a Debtor may be entitled. You will provide on request copies of the relevant Sales Contracts, Sales Invoices, credit notes, delivery notes, and other evidence of the fulfilment of the Sales Contracts as we may reasonably require and PFS Web B.V. will provide similar information in relation to VAT Receivables. There will be either be a service fee for each Notification subject to a minimum service fee payable in accordance with Clause 7.2.1, or a monthly service fee, as set out in the Schedule which you agree to pay to us. The Loan Parties will promptly when required by us complete any forms of assignment, documents or other instruments necessary to ensure the transfer of full ownership of the Receivables, Acquired Receivables and VAT Receivables to us or to enable us to collect the Receivables, Acquired Receivables and VAT Receivables.
- 4.1.5 If, for any reason, the sale or transfer of Receivables, Acquired Receivables and/or VAT Receivables, pursuant to the above provisions of this Agreement, does not vest ownership of the Receivables, Acquired Receivables and/or VAT Receivables in us, the Loan Parties will hold any such Receivables, Acquired Receivables and/or VAT Receivables and any monies collected by them in respect of such Receivables, Acquired Receivables and/or VAT Receivables in trust for us, and pay any such monies to us.
- 4.1.6 We may use the monies we receive from or on behalf of Debtors in respect of each Receivable, Acquired Receivable and VAT Receivable to satisfy any monies then owing to us by you. We will transfer any remaining amount to your designated bank account (provided there is no Event of Default) at the frequency agreed with you subject to the banking charge specified in the Schedule.
- 4.1.7 As the absolute owner we have the sole and unfettered right to enforce payment of and collect any Receivable, Acquired Receivable and VAT Receivable purchased by us under this Agreement. However until further notice from us the Loan Parties will act diligently and promptly as our undisclosed agent in administering the accounts of customers and in collecting and enforcing payment of Receivables, Acquired Receivables and VAT Receivables at the Loan Parties expense. However if (a) we consider that your continued collection of any Receivables, Acquired Receivables and VAT Receivables would be prejudicial to us, and that such collection would

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

- 4.1.8 The Loan Parties agree that without our prior written consent they will not sell, pledge or grant any Lien over any Receivables, Acquired Receivables and VAT Receivables to any third party, or agree to do so, or enter into any other arrangement which might adversely affect our interest in any Receivables, Acquired Receivables and VAT Receivables.
- 4.1.9 After the you Notify a Receivable, Acquired Receivable and VAT Receivable to us you agree (save where Clause 4.1.10 applies) not to cancel or vary any relevant Sales Contract, Sales Invoice or VAT invoice or its relevant payment terms or settlement discounts without our prior written consent except where the change is due to a manifest error in your invoice, in which case you will notify us of the resulting change in the Receivable but our written consent will not be required.
- 4.1.10 You undertake that if Products are returned to you and you provide a credit in any form which has the effect of reducing the amount of the relevant Receivable or Acquired Receivable, you will promptly notify us.
- 4.1.11 For each Notified Receivable, Acquired Receivable and VAT Receivable the you represent and warrant to us that: (a) all particulars notified to us are correct and complete; (b) the Receivable, Acquired Receivable and VAT Receivable has not been previously Notified to us; (c) any covenants or undertakings given to us relating to such Receivable, Acquired Receivable and VAT Receivable will be complied with; (d) the Sales Invoice to the Debtor has been issued within seven days of the delivery of the Products; (e) each Receivable or Acquired Receivable relates to an actual and bona fide sale and delivery of Products to the Debtor, is fully enforceable and is free from any other charge, pledge, or Lien in favour of a third party; (f) each VAT Receivable is fully enforceable and is free from any other charge, pledge, or Lien in favour of a third party; and (g) such Receivable, Acquired Receivable and VAT Receivable will be paid without any claim for set off, counterclaims, retention or abatement.
- 4.1.12 The sale or transfer of Receivables and VAT Receivables will continue until we notify You in writing that we will accept no more Receivables and/or VAT Receivables for purchase or until the termination of this Agreement whichever is the sooner.

The Loan Parties will comply in all material respects with the Loan Parties' credit and collection practices agreed with us in regard to each Receivable, Acquired Receivable, VAT Receivable, any Receivables Rights and the related Sales Contracts and VAT invoice.

5. PREPAYMENTS

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

6. RECEIVABLES AND RECEIVABLES RIGHTS

- 6.1 You will provide us with your Receivables Rights and take any necessary steps to make such Receivables Rights effective and enforceable. If a Lien is to be provided to us in relation to any Receivable, Acquired Receivable, VAT Receivable and/or Receivable Right not effectively purchased hereunder it shall be a valid first priority interest.
- 6.2 The Loan Parties agree:-
- 6.2.1 to promptly execute and deliver such further instruments and documents, and to take such further action including any filing or payment of registration fees at the Loan Parties' expense as we may reasonably request for the purpose of preserving or protecting all our rights and interests in the Receivables, Acquired Receivables and VAT Receivables (and the Receivables Rights) and our ownership of the former and our rights in the latter;
- 6.2.2 report to us with the reports and accounts referred to in the Schedule at the intervals specified therein and to provide us with such other reports as may be agreed; and
- 6.2.3 to advise us promptly, in reasonably sufficient detail, of any substantial change relating to the value, quantity or quality of the Receivables, Acquired Receivables and VAT Receivables and the Receivables Rights, including any movement in location of the Receivables, Acquired Receivables and VAT Receivables and the Receivables Rights, or any event which could reasonably be expected to have a significant adverse effect on the value, quantity or quality of the Receivables, Acquired Receivables and VAT Receivables and the Receivables Rights; and
- 6.2.4 promptly advise us of any loss, destruction of or damage to the Receivables, Acquired Receivables and VAT Receivables or the Receivables Rights and to pay us such amount (if any) as will reduce the Credit Limit as specified by us in our absolute discretion, or provide such additional Collateral as we may require; and

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

6.3 NOTICE OF TRANSFER OF OWNERSHIP OF RECEIVABLES

If required by us, for each Receivable, Acquired Receivable and VAT Receivable, the Loan Parties will give written notice to the Debtor concerned that we are the owner of the Receivable, Acquired Receivable or VAT Receivable, as applicable, and that payment of Receivables, Acquired Receivables and VAT Receivables, as applicable, must be made to us directly. The wording of the notice and the manner in which it is given will be as directed or approved by us. We may give such written notice to the Debtor directly.

6.4 RECEIVABLES RIGHTS

6.4.1 The Loan Parties hereby acknowledge that all Receivables Rights belong to us until all amounts owing to us in connection with such Receivable, Acquired Receivable or VAT Receivable and any outstanding Credit Charges are paid in full.

6.4.2 You will not cause and you will use your best endeavours not to permit any Debtor or other third party to acquire title in any Products the subject of Receivables or Acquired Receivables or to encumber such title in any way before you have delivered the relevant Products and payment in full of the relevant Receivable or Acquired Receivable has been made by such Debtor. You agree to take such action as may be required to implement this provision, including the insertion of appropriate clauses in Sales Contracts.

6.5 REPURCHASE

6.5.1 We may require you to buy back any Receivable, Acquired Receivable or VAT Receivable and pay us the Repurchase Price of such Receivable, Acquired Receivable or VAT Receivable as follows in any of the following situations: (i) if such Receivable, Acquired Receivable or VAT Receivable is or becomes an Ineligible Receivable; (ii) if it is the subject of a dispute; (iii) if payment is withheld for any reason including a dispute under the Sales Contract or, if applicable, VAT invoice or any claim to set-off or counterclaim; (iv) if it is payable by an Insolvent Debtor; (v) at any time on or after any Event of Default; or (vi) at any time after termination of this Agreement. We will either debit your account with the Repurchase Price if the account is sufficiently in credit, or if not then we will require the applicable Loan Party to make a cash payment of the Repurchase Price in which case such Loan Party will promptly make such payment to us. On receipt of payment in full of the Repurchase Price of each Receivable, Acquired Receivable or VAT Receivable which we require a Loan Party buy back together with all other sums due from it to us, we will upon request assign or transfer that Receivable, Acquired Receivable or VAT Receivable to you and it will pay the reasonable costs incurred by us including any duly documented and properly incurred legal costs or other professional expenses, stamp duties, VAT, and similar charges. Any amounts such Loan Party collects before we receive payment in full will be held in trust for us and promptly delivered to us and set against the amounts owed to us and any amounts we collect after payment in full to us will be credited to your account.

6.5.2 You will not cancel any notices of assignment given to Debtors owing Receivables, Acquired Receivables and VAT Receivables which we have

required you to buy back or attempt to collect such Receivables, Acquired Receivables and VAT Receivables for your own account until you have paid us, in cleared funds, the Repurchase Price and all other amounts due to us in respect of it.

6.6 CREDITS AND CLAIMS

- 6.6.1 If any query or claim shall arise concerning or affecting a Receivable, Acquired Receivable or VAT Receivable or concerning a credit or set-off by the Debtor against the Sales Invoice amount or, if applicable, VAT invoice, including any late delivery or return of Products or allegation of inadequate performance of the Sales Contract(s), the applicable Loan Party will, after complying with Clause 4.1.10, (i) immediately give full details in the form we require; (ii) use all reasonable efforts to resolve the query or claim; and (iii) notify us of any resulting credit note or other settlement.
- 6.6.2 If the query or claim affects the value to us of the Receivable, Acquired Receivable or VAT Receivable it may be treated by us as being an Ineligible Receivable.

6.7 BANK ACCOUNT

- 6.7.1 We will tell you the form of assignment to be included on the Sales Invoice, the separate notice for Acquired Receivables and the VAT Receivable. You will instruct relevant Debtors to pay the amounts of the Sales Invoices or, if applicable, the VAT invoice to a bank account in our name or to a bank account controlled by us and the Loan Parties must do nothing to prevent payment to us.
- 6.7.2 If payments are to be made to a bank account in your name but controlled by us you will enter into agreements satisfactory to us, enabling the bank account to be administered so that we have control over all withdrawals from the bank account. Any payments collected by the Loan Parties in relation to Receivables, Acquired Receivables and VAT Receivables shall be held in trust for us and promptly deposited in the bank account without being mixed with the Loan Parties' own funds or negotiated except in our favour. You will pay all costs and expenses of setting up and operating bank accounts for this purpose, including all charges relating to the collection or attempted collection of cheques or other instruments of payment.

7. CREDIT CHARGES AND PAYMENTS

7.1 INFORMATION ABOUT YOUR ACCOUNT

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

7.2 CREDIT CHARGES

- 7.2.1 The Credit Charges payable by you are set out in the Schedule. They are set out exclusive of VAT and any other taxes and duties which (if applicable) will be additionally payable by you. You will receive an invoice or relevant statement for all Credit Charges including any applicable VAT stamp or other duties and will either be debited to your account on a monthly basis or paid to us on demand. Any minimum

amounts payable by you will be debited to your account periodically as set out in the Schedule. Some Credit Charges will fluctuate up or down depending on changes to the Base Rate as described in Clause 7.2.3.

- 7.2.2 If we purchase a Supplier Invoice that does not include a "No Charge Period", any Supplier Obligations thereunder will be subject to a set up fee as specified in the Schedule (or as agreed with you) and Credit Charges will be levied on you from and including the date of issue of the relevant Supplier Invoice. You agree to pay such Credit Charges or set up fee on their due date together with payment of the relevant Supplier Obligations.
- 7.2.3 Where a Credit Charge is related to Base Rate and the outside reference rate upon which Base Rate is based at any time changes then, on the first business day of the next following calendar month, the Base Rate will be changed to the outside reference rate existing on the last business day of the previous calendar month. However, if the outside reference rate changes by 25 basis points or more at any time then the Base Rate will be changed by the same amount on the day of such change or the next following business day. When the applicable Base Rate is determined by reference to another published rate and that rate ceases to be published for any reason, we will use another appropriate rate as the reference rate so that you and we remain in an equivalent financial position.

7.3 PAYMENT

- 7.3.1 The Loan parties agree to pay, or cause you to pay, all sums due to us arising from the settlement of Supplier Obligations and the Repurchase Price of Receivables, Acquired Receivables and VAT Receivables and all Credit Charges owed to us and applicable VAT, stamp or other duties by direct debit, wire transfer, or such other method of payment that we agree, in full, without any set off whatsoever. Payment shall be deemed to be made when such payment is received in cleared funds in the designated bank account in our name or controlled by us. The Loan Parties may at any time prepay, without notice or penalty, in whole or in part, amounts owed to us under this Agreement. We may apply payments made to us (whether by you or otherwise) firstly to pay any Credit Charges owing under this Agreement and then the amount owing in respect of each Supplier Obligation, and or the Repurchase of Receivables, Acquired Receivables and VAT Receivables. Late payment will be subject to a late payment charge on the sums unpaid at the Default Rate from the date following the Due Date until and including the date payment is received by us in cleared funds in our account
- 7.3.2 Your obligations to pay sums due in respect of Supplier Obligations to us or any Repurchase Price of Receivables, Acquired Receivables and VAT Receivables will not be affected by any dispute you may have with any Authorised Supplier, including defective, insufficient, late or partly delivered Products. You waive all rights of set-off or counterclaim against your liability to pay Supplier Obligations. However, this does not affect any claim or right or remedy you may have against the Authorised Supplier. You will not assert against us any claim or defence you may have against the Authorised Supplier or any third party. We have no obligation to you under the Supplier Invoice. The Loan Parties will indemnify and hold us harmless against any claims or liabilities arising from the Products in any way whatsoever.
- 7.3.3 When Products are returned by you to an Authorised Supplier it will not affect the amounts due to us unless and until we receive the amount of a credit note from the applicable Authorised Supplier relative to the returned Products and which we shall promptly upon receipt apply it to your account. Such credit note amount will be deducted from the amounts due by you to us.

7.4 SHORTFALL AMOUNT

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

7.5 POWER OF ATTORNEY

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

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

8. REPRESENTATIONS, WARRANTIES AND COVENANTS

8.1 REPRESENTATIONS AND WARRANTIES

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

8.1.1 VALIDITY

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

8.1.2 ACTIONS, PROCEEDINGS

No significant or material judgements, orders, writs or decrees are outstanding against any Loan Party nor is there pending nor, to the best of the Loan Parties' knowledge after due inquiry, threatened, any material litigation, contested claim, investigation, arbitration, or taxation or governmental proceeding by or against a Loan Party, nor is any Loan Party in default of, nor engaged in, any significant or material dispute under any agreement or document. If any dispute does arise such Loan Party undertakes to inform us and promptly resolve it.

8.1.3 INFORMATION

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

8.2 COVENANTS AND UNDERTAKINGS

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

8.2.1 MERGER, CONSOLIDATION AND SALES

- (a) If any Loan Party plans to merge or consolidate with any other entity, or engage in any operation or activity materially different from that presently being conducted by it, or otherwise intend to dispose of any substantial part of its business, or the Receivables, Acquired Receivables and VAT Receivables or the Receivables Rights or the Products or the Product Rights or engage in a significant corporate restructuring in ownership, then such Loan Party will:
 - (i) disclose these facts to us as early as possible (and if subject to a confidentiality undertaking in relation to these matters, will use best endeavours to obtain the consent of the counterparty thereto), and
 - (ii) reach agreement with us concerning all remaining payment obligations under this Agreement or, failing such agreement, and if so required by us, immediately discharge such payment obligations (whether or not accrued due and payable). For this purpose all Supplier Obligations shall forthwith become payable and all Receivables, Acquired Receivables and VAT Receivables shall be treated as Ineligible Receivables to be re-purchased by such Loan Party. No Loan Party will be required to make such disclosure if, and for so long as, to do so would be a breach of applicable laws or regulatory requirements. Any disclosure under this sub-clause shall be treated in confidence by us.

8.2.2 FINANCIAL STATEMENTS AND OTHER INFORMATION

SDSA will give us a copy of its audited Financial Statements and management accounts prepared in accordance with generally accepted accounting principles, whether audited or not, as provided in the Schedule. SDSA and BSDE will also provide such other information as we may reasonably request concerning Sales Contracts and their completion. Each Loan Party will promptly advise us if any material action or proceeding is outstanding or pending against or if, to the best of its knowledge after due

enquiry, any such action or proceeding becomes threatened.

8.2.3 AUTHORISATION

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

8.2.4 INSPECTION

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

8.2.5 INSURANCE

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

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

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

8.2.6 RIGHT OF SET-OFF

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

8.2.7 FINANCIAL COVENANTS

You agree to comply with the Financial Covenants, if any, set out in the relevant supplements or the Schedule. You also agree that you will not, without our consent, make any of the following payments ("Restricted Payments") if you and Holdings are not in compliance with the Financial Covenants contained in this Agreement and after giving effect to such

payment, the aggregate amount of such Restricted Payments under this Agreement and the IWCF does not cause you or Holdings to violate such Financial Covenants or exceed Six Hundred Thousand Dollars (\$600,00),

without duplication, during any fiscal year (i) declare or pay any dividend; (ii) issue any warrants, options or rights to purchase any capital stock; (iii) make any payment to an Affiliate other than in the course of normal trading business and interest on intercompany debt; or (iv) make any other distribution, whether in cash, shares or property.

9. DEFAULTS AND REMEDIES

9.1 DEFAULTS

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

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

9.2 REMEDIES

- 9.2.1 In addition to any rights or remedies available at law or under this Agreement, on or at any time after an Event of Default that we have not

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

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

10. TERMINATION

- 10.1 This Agreement will remain in force until the earlier of (i) 120 days from the date of this Agreement or such other date as the Loan Parties and we may agree to in writing from time to time and (ii) upon not less than 60 days written notice by any party to the other. However following the occurrence of an Event of Default that we have not waived in writing we may by notice with immediate effect terminate this Agreement. Upon any termination of this Agreement we shall have all the rights and remedies set out in Clause 9.2 until the complete discharge of all the Loan Parties' obligations to us. Any such termination shall not affect any right we have in relation to the Receivables, Acquired Receivables and VAT Receivables or the Receivables Rights and the Supplier Obligations and the Product Rights.
- 10.2 Following the termination of this Agreement and the discharge of all the Loan Parties' obligations to us and subject to the exercise of any rights under this Agreement then any amounts we hold for you will be paid to you after deduction of all or any sums then owed to us under this or any other agreement between any of and all of the Loan Parties and IBM GF.
- 10.3 Notwithstanding the termination of this Agreement, the provision of Clauses which should by their nature survive termination (including without limitation payment obligations and rights to Receivables, Acquired Receivables and VAT Receivables and the Supplier Obligations and the Product Rights and/or Receivables Rights) shall so survive and shall remain in full force and effect until such time as all rights and liabilities between the parties have been satisfied.

11. GENERAL

11.1 ASSIGNMENT

We may assign the benefit of this Agreement in whole or in part. The Loan Parties consent to us novating to any other person all or any of our obligations, rights, benefits and remedies under this Agreement. Following such novation this Agreement (or the novated part) shall bind and enure to the benefit of our successors and assigns. The Loan Parties may

not assign or change their rights and benefits under this Agreement or sub-contract any of their obligations without our prior written consent.

11.2 LIMITATION OF LIABILITY

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

11.3 GUARANTEE AND INDEMNIFICATION.

Each of BSDE, SDSA and the Guarantors irrevocably and unconditionally, jointly and severally:

- 11.3.1 guarantees to each of BSDE and SDSA the due and punctual observance and performance of all the terms, conditions and covenants on the part of each of them contained in this Agreement and agrees to pay from time to time on demand any and every sum or sums of money which each of BSDE and SDSA is at any time liable to pay to us under or pursuant to the Agreement and which has become due and payable but has not been paid at the time such demand is made; and
- 11.3.2 agrees to indemnify and hold harmless IBM GF and each of its officers, directors, agents and assigns (collectively, the "Indemnified Persons") against all losses, claims, damages, liabilities or other expenses (including reasonable attorneys' fees and court costs now or hereinafter arising from the enforcement of this Agreement, the "Losses") to which any of them may become subject insofar as such Losses arise out of or are based upon any event, circumstance or condition (a) occurring or existing on or before the date of this Agreement relating to any financing arrangements IBM GF may from time to time have with (i) each Loan Party, (ii) any Person that shall be acquired by any Loan Party or (iii) any Person that any Loan Party may acquire all or substantially all of the assets of, or (b) directly or indirectly, relating to the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated hereby or thereby or to any of the Collateral or to any act or omission of any Loan Party in connection therewith. Notwithstanding the foregoing, none of the Borrower or any of the Guarantors shall be obligated to indemnify IBM GF for any Losses incurred by IBM GF which are a result of IBM GF's gross negligence or wilful misconduct. The indemnity provided herein shall survive the termination of this Agreement.

11.4 WAIVER

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

11.5 CHANGE OF TERMS

- 11.4.1 We may change the terms and conditions of this Agreement upon sixty days written notice to you, but no such change shall apply to purchases of Supplier Invoices or Receivables, Acquired Receivables and VAT Receivables made before the effective date of such change of terms.
- 11.4.2 We reserve the right to serve sixty days written notice on you designating some or all Receivables, Acquired Receivables or VAT Receivables as Ineligible Receivables and on the expiry of such notice you will promptly buy back the relevant Ineligible Receivables together with payment of any Credit Charges that apply.

- 11.4.3 In the case mentioned in paragraph 11.4.1 the Loan Parties shall be entitled to terminate this Agreement effective on the effective date of the change of terms by written notice delivered to us within thirty days of receipt of our notice of change of terms.

11.6 CURRENCY INDEMNITY

- 11.6.1 Unless otherwise agreed by us where a Receivable, Acquired Receivable or VAT Receivable is payable otherwise than in EURO in Belgium, the charges for both the collection and/or in the case of Receivables, Acquired Receivables and VAT Receivables not denominated in EURO, conversion into EURO or into such other currency as we shall from time to time determine, shall be deducted in calculating the Purchase Price and such price shall be computed by reference to the spot rate of exchange ruling in London the date of collection but at IBM GF's discretion, we may provisionally apply the rate ruling on the date we receive Notification of such Receivable, Acquired Receivable or VAT Receivable making such adjustments as shall thereafter be necessary
- 11.6.2 We hereby agree prior to the occurrence of an event referred to in Clause 11.6.1 that we will not convert any monies received hereunder in a currency other than EURO into any other currency without your prior agreement.
- 11.6.3 If at any time more than one currency or currency unit are recognised by the central bank of Belgium, or having jurisdiction in any country as the lawful currency of that country.
- 11.6.3.1 for so long as the currency or currency unit in which the provisions of and obligations under this Agreement are expressed (the "EXPRESS CURRENCY") shall remain so recognised, those provisions and obligations shall remain denominated and paid or satisfied in that currency or currency unit;
- 11.6.3.2 if the express currency ceases to be so recognised, any reference in this Agreement to that currency or currency unit shall be translated into and become payable in the currency or currency unit of that country designated by us; and
- 11.6.3.3 any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by us in the manner officially prescribed in relation to such official rate or, if to the extent not so recognised or prescribed, in such manner as we may reasonably determine.
- 11.6.3.4 If any change in any currency of a country occurs, this Agreement will be amended to the extent we after consultation with the Loan Parties, specify to be necessary in the light of the change in currency and to put the parties hereto as far as possible in the same position as they would have been but for such change in currency.

11.7 VAT

- 11.7.1 All charges specified in this Agreement are quoted exclusive of VAT
- 11.7.2 The Loan Parties shall comply with any directions which we may give to them in relation to the relief or refund on behalf of us of VAT included in any Receivable or Acquired Receivable purchased by us pursuant to this Agreement where such relief or refund may be available to us in respect of the

11.8 ELECTRONIC COMMUNICATIONS

Any party may communicate with any other party, other than notices referred to in Clause 11.9, by electronic means and such communication is acceptable as a signed

writing. An identification code (called a "USER ID") contained in an electronic document is sufficient to verify the sender's identity and the document's authenticity.

11.9 NOTICES

Any notice required or desired to be given under this Agreement shall be in writing and shall be delivered by facsimile transmission or registered mail, postage prepaid, and addressed to the address of the respective party to this Agreement listed in the Schedule or following the expiry of a period of 30 Business Days from the delivery of written notice to the other party, such other address or facsimile number notified by that party to the other in accordance with this clause:

11.10 PARTIAL INVALIDITY

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

11.11 COMPLETE AGREEMENT

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

11.12 MISCELLANEOUS

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

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

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

11.13 APPLICABLE LAW AND JURISDICTION

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

BY SIGNING BELOW BOTH PARTIES ACCEPT THE TERMS OF THE AGREEMENT

SIGNED ON BEHALF OF

SIGNED ON BEHALF OF

SUPPLIERS DISTRIBUTORS S.A.

IBM BELGIUM FINANCIAL SERVICES S.A.

Signed: _____

Signed: _____

By Name: _____

By Name: _____

Title: _____

Title: _____

Signature:

Signature:

Date: ----- Date: -----

BUSINESS SUPPLIES DISTRIBUTORS
EUROPE BV

PFS WEB B.V.

Signed: _____

Signed: _____

By Name: _____

By Name: _____

Title: _____

Title: _____

Signature: _____

Signature: _____

Date: _____

Date: _____

IBM CREDIT CORPORATION

COLLATERALIZED GUARANTY

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

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

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

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

and documents therefor ("IBM Credit Inventory"); (b) all accounts, chattel paper, instruments, negotiable documents, promissory notes, general intangibles (including contract rights, software and licenses), deposit accounts, commercial tort claims, intellectual property, investment property, pledged notes, letter of credit rights, supporting obligations, obligations of any kind owing to Guarantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services and all books, invoices, documents and other records in any form evidencing or relating to any of the foregoing; (c) all substitutions and replacements for all of the foregoing; and (d) all products or proceeds of all of the foregoing (all of the above assets are defined pursuant to the provisions of Article 9 of the Uniform Commercial Code as in effect in the State of New York and are hereinafter referred to as the "Collateral"). Collateral shall not include inventory and equipment of the Guarantor that is not IBM Credit Inventory (as defined above). This security interest is also granted to secure Guarantor's debts to all of IBM GF's affiliates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PFS
4550 Quality Drive
Memphis, TN 38118

PFS
4638 Shelby Drive
Memphis, TN 38118

American Eagle Systems
30 Corporate Drive
Holtsville, New York 11742

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

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

settle any and all claims with respect to the Collateral. If Guarantor fails to pay any of the above-referenced costs, charges or any insurance premiums, or if it fails to insure the Collateral, IBM GF and/or IBM Credit may pay such costs, charges or any insurance premiums, and the amounts paid shall be considered an additional debt owed by Guarantor to IBM GF and/or IBM Credit. Guarantor will promptly notify IBM Credit of any loss, theft or destruction of or damage to any of the Collateral.

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

This Guaranty is assignable, shall be construed liberally in IBM GF's and IBM Credit's favor, and shall inure to the benefit of and bind IBM GF's, IBM Credit's and Guarantor's respective successors, personal representatives and assigns, and also benefit any of IBM GF and IBM Credit's existing or future affiliates that may extend credit to Borrower.

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

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

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

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

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

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

This Guaranty is submitted by Guarantor to IBM GF (for IBM GF's acceptance or rejection thereof) at IBM GF's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM GF to Borrower. If accepted, this Guaranty shall be deemed to have been made at IBM GF's above-specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and, in all other respects by the laws of the State of New York without giving effect to the principles of conflicts of laws. Guarantor, to induce IBM GF to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at IBM GF's and/or IBM Credit's sole discretion and election, in courts within the State of New York. Guarantor consents and submits to the jurisdiction of any local, state or federal court located within that state. Guarantor waives any right to transfer or change the venue of any litigation brought against Guarantor by IBM GF and/or IBM Credit in accordance with this paragraph.

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

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

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

WITNESS

PRIORITY FULFILLMENT SERVICES, INC.
GUARANTOR

By: _____

Print Name: _____

Print Name: _____

Title: _____

Date: _____

(SEAL)

Guarantor's Address: _____
_____, _____

ATTEST:

Secretary

Print Name: _____

IBM BELGIUM FINANCIAL SERVICES S.A.

By: _____

Print Name: _____

Title: _____

IBM BELGIUM FINANCIAL SERVICES S.A.

GUARANTY
(BY CORPORATION)

In consideration of credit and financing accommodations granted or to be granted by IBM Belgium Financial Services S.A. with a registered number of R.C. Brussels 451.673 with an address of Square Victoria Regina 1, BE-1210 Brussels VAT BE 424300467 ("IBM GF") to Business Supplies Distributors Europe B.V. and Supplies Distributors S.A. (collectively the "Customer") under a financing agreement between IBM GF and Customer, which is in the best interest of PFSweb, Inc. ("Guarantor"), and for other good and valuable consideration received, Guarantor guarantees to IBM GF and IBM Credit Corporation as agent for IBM GF ("IBM Credit") the prompt and unconditional performance and payment by Customer of any and all obligations, liabilities, contracts, mortgages, notes, trust receipts, secured transactions, inventory financing and security agreements, and commercial paper on which Customer is in any manner obligated, heretofore, now, or hereafter owned, contracted or acquired by IBM GF ("Liabilities"), whether the Liabilities are individual, joint, several, primary, secondary, direct, contingent or otherwise. Guarantor also agrees to indemnify IBM GF and IBM Credit and hold IBM GF and IBM Credit harmless against any losses IBM GF and/or IBM Credit may sustain and expenses they may incur, suffer or be liable for as a result of or in any way arising out of, following, or consequential to any transactions with or for the benefit of Customer.

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

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

This Guaranty is assignable, shall be construed liberally in IBM GF's and IBM Credit's favor, and shall inure to the benefit of and bind IBM GF's, IBM Credit's and Guarantor's respective successors, personal representatives and assigns, and also benefit any of IBM GF's and IBM Credit's existing or future affiliates that may extend credit to Customer.

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

Guarantor waives: notice of the acceptance of this Guaranty, and of presentment, demand and protest; notices of nonpayment, nonperformance, any right of contribution from other guarantors, and dishonor; notices of amount of indebtedness of Customer outstanding at any time; notices of the number and amount of advances made by IBM GF to Customer in reliance on this Guaranty; notices of any legal

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

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

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

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

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

This Guaranty is submitted by Guarantor to IBM GF (for IBM GF's acceptance or rejection thereof) at IBM GF's above specified office; as an offer by Guarantor to guaranty the credit and financial accommodations provided by IBM GF to Customer. If accepted, this Guaranty shall be deemed to have been made at IBM GF's above specified office. This Guaranty and all obligations pursuant thereto, shall be governed and controlled as to interpretation, enforcement, validity, construction, effect and in all other respects by the laws of the State of New York without giving effect to the principles of conflicts of laws. Guarantor, to induce IBM GF to accept this Guaranty, agrees that all actions or proceedings arising directly or indirectly in connection with, out of, related to or from this Guaranty may be litigated, at IBM GF's and/or IBM Credit's sole discretion and election, in courts within the State of New York. Guarantor consents and submits to the jurisdiction of any local, state or federal court located within that state. Guarantor waives any

right to transfer or change the venue of any litigation brought against Guarantor by IBM GF or IBM Credit in accordance with this paragraph.

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

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

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

WITNESS: PFSWEB, INC.

(Print Name) By: -----

Name: -----
Title: -----
(SEAL) -----
Date: September 27, 2001
Guarantor's Address:

ATTEST:

(Secretary)
(Print Name)

SECRETARY'S CERTIFICATE

I hereby certify that I am the Secretary of the following named corporation and that execution of the above Guaranty was ratified, approved and confirmed by the Shareholders at a meeting, if necessary, and pursuant to a resolution of the Board of Directors of the corporation at a meeting of the Board of Directors duly called, and which is currently in effect, which resolution was duly presented, seconded and adopted and reads as follows:

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

IN WITNESS WHEREOF and as Secretary of the named corporation I have hereunto set my hand and affixed the corporate seal on this 27th day of September, 2001.

PFSWEB, INC.

(SEAL)

(Secretary)

SUBORDINATED DEMAND NOTE

\$6,000,000

September , 2001

FOR VALUE RECEIVED, BSD ACQUISITION CORP., a Delaware corporation ("Borrower"), promises to pay to the order of PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation (the "Lender"), on DEMAND (the "Maturity Date") the principal amount set forth above, or so much thereof, or such other amount, as shall, from time to time, be advanced by or on behalf of the Lender to, or for the benefit of, the Borrower, and shall be outstanding, together with interest thereon as herein provided. All sums hereunder are payable on demand to Lender at its principal offices in lawful currency of the United States of America and in immediately available funds. All payments and prepayments made hereunder shall be made without setoff, counterclaim or deduction of any kind.

The unpaid principal balance hereof shall accrue interest, commencing on the date hereof and continuing until paid in full, as herein provided, at a fluctuating rate per annum equal to the Lender's cost of funds for the corresponding period as determined by the Lender; provided, however, that, for so long as this Note shall be outstanding, as of the last day of each fiscal year of the Borrower, all accrued and unpaid interest for such fiscal year shall be capitalized and added to the principal balance of this Note and thereafter interest shall accrue on such increased principal balance. Notwithstanding the foregoing, however, the interest payable hereunder shall not exceed the highest lawful rate permitted under the provisions of applicable law (the "Highest Lawful Rate").

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY IS SUBORDINATED TO IBM CREDIT CORPORATION IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THAT CERTAIN NOTES PAYABLE SUBORDINATION AGREEMENT BY AND AMONG IBM CREDIT CORPORATION, LENDER AND BORROWER.

Borrower, and each surety, endorser, guarantor and other party now or hereafter liable for the payment of any sums of money payable on this Note, hereby severally (a) waive demand, presentment for payment, notice of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices, filing of suit and diligence in collecting this Note or enforcing any other security with respect to same, (b) agree to any substitution, subordination, exchange or release of any such security or the release of any parties primarily or secondarily liable hereon, (c) agree that Lender shall not be required first to institute suit or exhaust its remedies hereon against Borrower, or others liable or to become liable hereon or to enforce its rights against them or any security with respect to same, (d) consent to any and all renewals, extensions, indulgences, releases or changes, regardless of the number of such renewals, extensions, indulgences, releases or changes, without notice thereof, and (e) agree to the application of any deposit balance with Lender as payment or part payment hereon or as an offset hereto. No waiver by Lender of any of its rights or remedies hereunder or under any other document evidencing or securing this Note or otherwise shall be considered a waiver of any other subsequent right or remedy of Lender; no delay or omission in the exercise or endorsement by Lender of any rights or remedies shall ever be construed as a waiver of the same or any other right or remedy of Lender; and no exercise or enforcement of any such right or remedy shall ever be held to exhaust any right or remedy of Lender.

Failure to pay this Note or any installment of principal or payment of interest when due shall constitute an Event of Default and shall entitle the Lender to accelerate the principal amount hereof and all interest then accrued, which shall at once become due and payable, and to exercise all other rights and remedies available at law or in equity.

If this Note is not paid at maturity and is placed in the hands of an attorney for collection, or if it is collected through a bankruptcy or any other court, then Lender shall be entitled to reasonable attorneys' fees and other costs of collection.

Borrower acknowledges and agrees that it is the intention of Borrower and Lender to conform strictly to the usury laws in force that apply to this Note. Accordingly, this Note is hereby limited so that in no contingency, whether by reason of acceleration of the maturity of the Note or otherwise, shall the interest (and all other sums that are deemed to be interest) contracted for, charged or received by Lender with respect to this Note exceed the Highest Lawful Rate. If, from any circumstance whatsoever, interest under this Note would otherwise be payable in excess of the Highest Lawful Rate, and if from any circumstance Lender shall ever receive anything of value deemed interest by applicable Law in excess of the Highest Lawful Rate, then Lender's receipt of such excess interest shall be deemed a mistake and

the same shall, so long as no Event of Default shall be continuing, at the option of Borrower, either be repaid to Borrower or credited to the unpaid principal; provided, however, that if an Event of Default shall have occurred and be continuing, and Lender shall receive excess interest during such period, then Lender shall have the option of either crediting such excess amount to principal or refunding such excess amount for Borrower. If the Note is prepaid or the maturity of the Note is accelerated by reason of an election of Lender following an Event of Default, then unearned interest, if any, shall be cancelled and, if theretofore paid, shall either be refunded to Borrower or credited on the Note, as Lender elects. All interest paid or agreed to be paid to Lender shall, to the extent allowed by applicable law, be amortized, prorated, allocated, and spread throughout the full period until payment in full of the principal (including the period of any renewal or extension) so that the interest for such full period shall not exceed the Highest Lawful Rate.

THIS NOTE SHALL BE DEEMED AN INSTRUMENT MADE UNDER THE LAWS OF THE STATE OF TEXAS AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA. PURSUANT TO SECTION 346.004 OF THE TEXAS FINANCE CODE, CHAPTER 346 OF THE TEXAS FINANCE CODE SHALL NOT APPLY TO THIS NOTE, OR ANY ADVANCE OR LOAN EVIDENCED BY THIS NOTE.

THE OBLIGATIONS OF BORROWER HEREUNDER ARE PERFORMABLE IN COLLIN COUNTY, TEXAS. ANY SUIT, ACTION OR PROCEEDING AGAINST BORROWER WITH RESPECT TO THIS NOTE OR ANY OTHER LOAN DOCUMENT, OR ANY JUDGMENT ENTERED BY ANY COURT IN RESPECT THEREOF, MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS, COUNTY OF COLLIN, OR IN THE UNITED STATES COURTS LOCATED IN DALLAS, TEXAS AND BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURTS FOR THE PURPOSE OF ANY SUCH SUIT, ACTION OR PROCEEDING. BORROWER HEREBY IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN ANY SUIT, ACTION OR PROCEEDING IN SAID COURT BY THE MAILING THEREOF BY AGENT BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO BORROWER AT THE ADDRESS FOR NOTICES AS PROVIDED IN THE AGREEMENT. BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE OR ANY OTHER LOAN DOCUMENT BROUGHT IN THE COURTS LOCATED IN THE STATE OF TEXAS, COUNTY OF COLLIN, AND HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

BORROWER WAIVES ANY AND ALL RIGHTS THAT IT MAY HAVE TO A TRIAL BY JURY ON ANY CLAIM, COUNTERCLAIM OR OTHER ACTION, OF ANY NATURE WHATSOEVER, RELATING TO OR ARISING OUT OF THIS NOTE, ANY OF THE OTHER LOAN DOCUMENTS OR THE OBLIGATIONS. BORROWER ACKNOWLEDGES THAT THE FOREGOING JURY TRIAL WAIVER IS A MATERIAL INDUCEMENT TO LENDER'S ENTERING INTO THE AGREEMENT AND THAT LENDER IS RELYING ON SUCH WAIVER IN ITS FUTURE DEALINGS WITH BORROWER. BORROWER WARRANTS AND REPRESENTS TO LENDER THAT BORROWER HAS REVIEWED THE FOREGOING JURY TRIAL WAIVER WITH ITS LEGAL COUNSEL AND HAS KNOWINGLY AND VOLUNTARILY WAIVED ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH SUCH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, THE FOREGOING JURY TRIAL WAIVER MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

BORROWER HEREBY WAIVES ALL OF ITS RIGHTS UNDER THE TEXAS DECEPTIVE TRADE PRACTICES-CONSUMER PROTECTION ACT (TEX. BUS. & COM. CODE SECTION 17.01 ET SEQ.), A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS, AND REPRESENTS AND WARRANTS TO LENDER THAT BORROWER (A) HAS KNOWLEDGE AND EXPERIENCE IN FINANCIAL AND BUSINESS MATTERS THAT ENABLE BORROWER TO EVALUATE THE MERITS AND RISKS OF THE TRANSACTIONS CONTEMPLATED BY THE AGREEMENT AND THIS NOTE, (B) IS NOT IN A SIGNIFICANTLY DISPARATE BARGAINING POSITION RELATIVE TO LENDER, AND (C) HAS BEEN REPRESENTED BY LEGAL COUNSEL IN CONNECTION WITH SUCH TRANSACTIONS.

THIS NOTE REPRESENTS THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND SUPERSEDES ALL PRIOR AGREEMENTS AND UNDERSTANDINGS, IF ANY, RELATING TO THE SUBJECT MATTER HEREOF AND THEREOF. THIS NOTE REPRESENTS THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

BSD ACQUISITION CORP.
a Delaware corporation

By:

Name: Joe Farrell
Title: President

Pay to the order of IBM Credit Corporation:

Priority Fulfillment Services, Inc.

By:

Name: Tom Madden
Title: Chief Financial Officer