

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 23, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PFSWEB, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	7389 (Primary Standard Industrial Classification Code Number)	75-2837058 (I.R.S. Employer Identification Number)
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500 NORTH CENTRAL EXPRESSWAY
PLANO, TEXAS 75074
(972) 881-0733
(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

MARK C. LAYTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
PFSWEB, INC.
500 NORTH CENTRAL EXPRESSWAY
PLANO, TEXAS 75074
(972) 881-0733
(Name, address, including zip code, and telephone number, including area code,
of agent for service)

Copies to:

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NEW YORK, NEW YORK 10166
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Approximate date of commencement of proposed sale to the public: AS SOON AS
PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, check the following box. []

If this form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and
list the Securities Act registration statement number of the earlier effective
registration statement for the same offering. []

If this form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. []

If this form is a post-effective amendment filed pursuant to Rule 462(d)
under the Securities Act, check the following box and list the Securities Act
registration statement number of the earlier effective registration statement
for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434,
check the following box. []

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
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Common Stock, no par

value..... 3,565,000 \$14.00 \$49,910,000 \$13,875

- (1) Includes 465,000 shares that the Underwriters have the option to purchase solely to cover over-allotments, if any.
- (2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457 under the Securities Act.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED SEPTEMBER 23, 1999

PROSPECTUS

3,100,000 SHARES

PFS LOGO

COMMON STOCK

This is the initial public offering of common stock by PFSweb, Inc. We are selling 3,100,000 shares of common stock. The estimated initial public offering price is between \$12.00 and \$14.00 per share.

There is currently no public market for the common stock. In connection with this offering, we will apply to list our common stock on the Nasdaq National Market under the symbol "PFSW."

We are currently a subsidiary of Daisytek International Corporation. When the offering is completed, Daisytek will own approximately 82.2% of our outstanding shares of common stock.

	PER SHARE	TOTAL
	-----	-----
Public offering price.....	\$	\$
Underwriting discount.....	\$	\$
Proceeds, before offering expenses, to PFSweb.....	\$	\$

The underwriters may also purchase up to 465,000 additional shares of common stock from us at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover over-allotments.

Delivery of the shares of common stock will be made on or about
, 1999.

INVESTING IN THE COMMON STOCK INVOLVES RISKS.
SEE "RISK FACTORS" BEGINNING ON PAGE 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

HAMBRECHT & QUIST

DAIN RAUSCHER WESSELS
A DIVISION OF DAIN RAUSCHER
INCORPORATED
WILLIAM BLAIR & COMPANY
JEFFERIES & COMPANY, INC.

, 1999

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Unless otherwise indicated, all references to "PFSweb," "we," "us" and "our" refer to PFSweb, Inc., a Delaware corporation, and the subsidiaries of Daisytek representing the business operations of PFSweb that will become subsidiaries of PFSweb upon completion of this offering. All references to "Daisytek" refer to Daisytek International Corporation, a Delaware corporation, and its subsidiaries.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the information under "Risk Factors" beginning on page 6 and the financial statements beginning on page F-1, before making an investment decision.

OUR BUSINESS

We are an international provider of transaction management services for both traditional commerce and electronic commerce, or e-commerce, companies. We provide a comprehensive suite of services, including order management, customer care services, billing services, information management and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete transaction management infrastructure requirements to a single source. We currently provide transaction management services to over 30 clients that operate in a range of markets, including apparel, computer products, printers, sporting goods and consumer electronics, among others. Our clients include various divisions of IBM, Hewlett-Packard, Thomson Consumer Electronics, Nokia, Tektronix, Global Sports Interactive, American Eagle Outfitters and ISA International plc.

As the Internet has become an increasingly important communications medium, merchants and consumers have embraced using the Internet to buy and sell goods and services. International Data Corporation, or IDC, currently forecasts that the actual number of Web buyers worldwide will expand from nearly 31 million in 1998 to more than 182 million in 2003 and that the amount of worldwide commerce conducted over the Internet will increase from approximately \$50 billion in 1998 to approximately \$1.3 trillion in 2003. To succeed on-line, a merchant must attract customers to its Web site and provide an appealing and easy to use environment that encourages customers to place an order. Once the customer places an order, the merchant must then process the order by executing numerous transactions, such as confirming product availability, authorizing a credit card purchase, calculating sales tax, fulfilling the order and, when necessary, processing returns. These "behind the scenes" activities are critical to complete the entire transaction.

While early adopters of e-commerce business models often developed their own transaction management systems, today many on-line merchants seek to outsource their transaction management requirements. We believe that we are strategically positioned to benefit from the growing use and acceptance of e-commerce.

We offer a comprehensive suite of services, including:

- order management, including Internet shopping cart and on-line order management;
- customer care services, including Web-enabled customer care centers integrating voice, e-mail, data and chat communications;
- billing services, including secure on-line credit card processing, invoicing, credit management and collection;
- information management, including real-time data interfaces, data exchange services and data mining; and
- distribution services, including inventory management, product warehousing, order picking and packing, transportation management and product return administration.

Our integrated solution enables our clients to focus on their core business, products and services instead of making substantial investments in transaction management infrastructure and ongoing personnel. Additionally, our services enable our clients to quickly capitalize on new business opportunities, provide an improved experience for their customers, improve operating efficiencies and cash flows and access sophisticated technology infrastructure.

Our objective is to grow rapidly by being an international provider of business-to-business and business-to-consumer transaction management services for both traditional and e-commerce businesses. The key elements of our business strategy are to:

- target clients with major brand names;
- expand existing client relationships;
- promote our PFSweb brand;
- seek strategic alliances and acquisitions; and
- expand our international presence.

OUR RELATIONSHIP WITH DAISYTEK

We are currently a subsidiary of Daisytek International Corporation, one of the world's largest wholesale distributors of non-paper consumable computer supplies and professional video and audio tape products. Our business unit was formed in 1991 to leverage Daisytek's core competencies in customer service, order management, product fulfillment and distribution. Since 1996, the operations of our business unit have been primarily focused in several Daisytek subsidiaries operating collectively as Priority Fulfillment Services, Inc. ("PFS"). After the completion of this offering, Daisytek will own approximately 82.2% of the outstanding shares of our common stock, or approximately 80.1% if the underwriters exercise their over-allotment option in full. Daisytek has announced that it plans to effect the complete separation of PFSweb from Daisytek sometime in mid-2000 (and within one year of the closing of this offering) through a pro rata distribution to its common stockholders of all of the shares of our common stock which Daisytek then holds (which is also known as a "spin-off"). There are, however, various conditions to the completion of the spin-off, and we cannot assure you as to whether or when it will occur.

Upon completion of this offering we will enter into a number of agreements with Daisytek relating to our business and our proposed spin-off from Daisytek. Under these agreements, Daisytek will continue to provide us with certain administrative services and facilities, and we will provide Daisytek with transaction management services for its U.S. wholesale consumable computer supplies business. See "Certain Transactions" and "Risk Factors -- Risks Related to Daisytek".

We were incorporated in Delaware in 1999 to be, upon completion of this offering, the parent holding company for PFS. Our principal executive offices are located at 500 North Central Expressway, Plano, Texas 75074, and our telephone number is 972-881-0733.

We maintain a Web site at www.pfsweb.com, and Daisytek maintains a Web site at www.daisytek.com. Information contained on these Web sites does not constitute part of this prospectus and is not incorporated by reference in this prospectus.

THE OFFERING

Common stock offered by PFSweb.....	3,100,000 shares
Common stock to be outstanding after the offering.....	17,405,000 shares
Use of proceeds.....	- to repay an intercompany payable to Daisytek (\$ million as of October 31, 1999);
	- to acquire certain assets from Daisytek of approximately \$ million;
	- for presently anticipated capital expenditures of \$ million; and
	- the balance of the proceeds for general working capital and possible acquisitions. See "Use of Proceeds."
Proposed Nasdaq National Market symbol.....	"PFSW"

Unless otherwise noted, the information in this prospectus assumes the underwriters do not exercise their option to purchase an additional 465,000 shares of common stock from us to cover over-allotments. The number of outstanding shares used in this prospectus is 17,405,000 and excludes 1,376,500 shares of common stock issuable upon exercise of outstanding options and 4,623,500 shares of common stock available for the future grant of stock options under our stock option plans.

FISCAL YEAR

Our fiscal year and Daisytek's fiscal year ends on March 31 of each year. All references to fiscal years in this prospectus refer to the fiscal years ending in the indicated calendar years. For example, "fiscal 1999" refers to the fiscal year ended March 31, 1999.

PRO FORMA AND SUPPLEMENTAL PRO FORMA FINANCIAL INFORMATION

Our historical financial statements reflect our operations and client agreements prior to the following transactions. As of October 1, 1999, we have restructured our arrangements with IBM, one of our key clients, so that the transaction management services we provide for IBM will no longer include purchasing and reselling IBM product inventory, but instead will be reflected as service fees. In addition, upon completion of this offering, we will enter into a transaction management services agreement with Daisytek and begin recording service fee revenue under this agreement. Our historical financial statements, therefore, may not provide a meaningful basis for analyzing our business in the future. To assist in evaluating our ongoing business, we have provided the following pro forma and supplemental pro forma financial information.

The column labeled "pro forma" shows how our historical financial data would reflect:

- the reclassification of Daisytek's net investment as common stock and additional paid-in-capital;
- the issuance of 3,100,000 shares of common stock in this offering and the anticipated application of the net proceeds; and
- the incremental cost we expect to incur as a stand-alone publicly traded company.

The column labeled "supplemental pro forma" shows how the pro forma financial data would reflect what our results would have been:

- under our prior IBM agreements if we had received service fees instead of purchasing IBM products and reselling them;
- if we had performed transaction management services and recorded service fee revenue for our business with Daisytek under our new agreement; and
- if we had acquired certain assets and liabilities from Daisytek as part of our separation from Daisytek.

SUMMARY FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEAR ENDED MARCH 31, 1999		
	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(UNAUDITED)		
COMBINED STATEMENT OF OPERATIONS DATA:			
Revenues:			
Product revenue.....	\$ 93,702	\$ 93,702	\$ --
Service fee revenue.....	7,547	7,547	31,510
Total revenues.....	101,249	101,249	31,510
Gross profit.....	7,591	7,591	12,984
Income (loss) from operations.....	1,032	(1,277)	4,352
Net income (loss).....	\$ 385	\$ (428)	\$ 2,943
	=====	=====	=====
PER SHARE DATA:			
Net income (loss) per share:			
Basic and diluted.....	\$ 0.03	\$ (0.02)	\$ 0.17
	=====	=====	=====
Weighted average number of shares outstanding:			
Basic and diluted.....	14,305	17,405	17,405

	THREE MONTHS ENDED JUNE 30, 1999		
	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(UNAUDITED)		
COMBINED STATEMENT OF OPERATIONS DATA:			
Revenues:			
Product revenue.....	\$32,620	\$32,620	\$ --
Service fee revenue.....	3,191	3,191	9,250
Total revenues.....	35,811	35,811	9,250
Gross profit.....	2,787	2,787	3,423
Income (loss) from operations.....	(1)	(597)	307
Net income (loss).....	\$ (198)	\$ (335)	\$ 271
	=====	=====	=====
PER SHARE DATA:			
Net income (loss) per share:			
Basic and diluted.....	\$ (0.01)	\$ (0.02)	\$ 0.02
	=====	=====	=====
Weighted average number of shares outstanding:			
Basic and diluted.....	14,305	17,405	17,405

	JUNE 30, 1999		
	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(UNAUDITED)		
COMBINED BALANCE SHEET DATA:			
Working capital.....	\$20,819	\$20,839	\$13,181
Total assets.....	67,967	67,987	39,455
Long-term obligations.....	37,349	1,870	260
Shareholders' equity.....	466	35,965	35,965

SUMMARY FINANCIAL INFORMATION

The following table presents summary combined financial data for PFSweb. The data presented in this table are derived from the historical combined financial statements and notes thereto that are included elsewhere in this prospectus. You should read those sections for a further explanation of the financial data summarized here.

Our historical financial information may not necessarily reflect our results of operations or financial position in the future or what our results of operations and financial position would have been had we operated as a separate, stand-alone entity during the periods presented.

	FISCAL YEARS ENDED MARCH 31,				
	1999				
	1997	1998	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)				
COMBINED STATEMENT OF OPERATIONS DATA:					
Revenues:					
Product revenue.....	\$16,543	\$45,804	\$ 93,702	\$ 93,702	\$ --
Service fee revenue...	1,034	3,539	7,547	7,547	31,510
Total revenues.....	17,577	49,343	101,249	101,249	31,510
Gross profit.....	1,213	3,743	7,591	7,591	12,984
Income (loss) from operations.....	155	98	1,032	(1,277)	4,352
Net income (loss).....	\$ 34	\$ (38)	\$ 385	\$ (428)	\$ 2,943
PER SHARE DATA:					
Net income (loss) per share:					
Basic and diluted.....	\$ 0.00	\$ (0.00)	\$ 0.03	\$ (0.02)	\$ 0.17
Weighted average number of shares outstanding:					
Basic and diluted.....	14,305	14,305	14,305	17,405	17,405

	THREE MONTHS ENDED JUNE 30,			
	1999			
	1998	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)			
COMBINED STATEMENT OF OPERATIONS DATA:				
Revenues:				
Product revenue.....	\$20,424	\$32,620	\$32,620	\$ --
Service fee revenue...	1,004	3,191	3,191	9,250
Total revenues.....	21,428	35,811	35,811	9,250
Gross profit.....	1,249	2,787	2,787	3,423
Income (loss) from operations.....	95	(1)	(597)	307
Net income (loss).....	\$ 25	\$ (198)	\$ (335)	\$ 271
PER SHARE DATA:				
Net income (loss) per share:				
Basic and diluted.....	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ 0.02
Weighted average number of shares outstanding:				
Basic and diluted.....	14,305	14,305	17,405	17,405

JUNE 30, 1999		
ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
(IN THOUSANDS) (UNAUDITED)		

COMBINED BALANCE SHEET DATA:

Working capital.....	\$20,819	\$20,839	\$13,181
Total assets.....	67,967	67,987	39,455
Long-term obligations.....	37,349	1,870	260
Shareholders' equity.....	466	35,965	35,965

RISK FACTORS

You should carefully consider the risks and uncertainties described below before making an investment decision. Our business, financial condition and operating results could be adversely affected by any of the following factors, in which event the trading price of our common stock could decline, and you could lose part or all of your investment. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that we currently think are immaterial, may also impair our business operations.

RISKS RELATED TO OUR BUSINESS

OUR REVENUE IS DEPENDENT UPON OUR CLIENTS' BUSINESS AND PRODUCT SALES; MANY OF OUR CLIENT AGREEMENTS ARE TERMINABLE AT WILL.

Our revenue is primarily transaction based and will fluctuate with the volume of transactions or level of sales of the products by our clients for which we provide transaction management services. If we dedicate significant resources to clients whose business does not generate substantial transactions or whose products do not generate substantial customer sales, our business may be materially adversely affected. In addition, many of our agreements with our clients are terminable by either party without cause. Therefore, we cannot assure you that any of our clients will continue to use our services for any period of time.

WE ANTICIPATE INCURRING SIGNIFICANT EXPENSES IN THE FORESEEABLE FUTURE WHICH MAY REDUCE OUR PROFITABILITY.

In order to reach our business growth objectives, we expect to incur significant operating and marketing expenses, as well as capital expenditures, during the next several years. We also expect to incur significant expenses in connection with the spin-off of our company from Daisytek. In order to offset these expenses, we will need to generate significant additional revenue. We cannot assure you that we will generate sufficient revenue to be profitable or that we will be able to sustain or increase profitability on a quarterly or an annual basis in the future. If our revenue grows more slowly than we anticipate or if our operating and marketing expenses exceed our expectations, our business would be materially adversely affected.

OUR SYSTEMS MAY NOT ACCOMMODATE SIGNIFICANT GROWTH IN OUR NUMBER OF CLIENTS.

Our success depends on our ability to handle a large number of transactions for many different clients in various product categories. We expect that the volume of transactions will increase significantly as we expand our operations. If this occurs, additional stress will be placed upon the network hardware and software that manages our operations. We cannot assure you of our ability to efficiently manage a large number of transactions. If we are not able to maintain an appropriate level of operating performance, we may develop a negative reputation and our business, would be materially adversely affected.

BECAUSE WE MUST ALWAYS HAVE SUFFICIENT CAPACITY, WE MAY ENTER INTO DISADVANTAGEOUS CONTRACTS.

We expect that the number of transactions and products that we handle will continue to grow in the future. In order to ensure that we are able to handle such additional transactions and products, we may be required to locate and obtain additional facilities, including warehouse space, and acquire additional systems and equipment. If we overestimate the facilities and systems capacity that we require, we may be obligated to pay for more capacity than we actually use, resulting in our incurring costs without corresponding revenue. Conversely, if we underestimate our capacity needs, we may be unable to provide the necessary services for our clients or may be required to obtain additional capacity through more expensive means. The occurrence of either of these situations could significantly reduce our operating margins and adversely affect our business.

WE FACE COMPETITION FROM MANY SOURCES THAT COULD ADVERSELY AFFECT OUR BUSINESS.

Many companies offer, on an individual basis, one or more of the same services as we do, and many of our competitors have greater financial, distribution and marketing resources than we do. These competitors can use their greater resources to expand their sales efforts, lower prices or increase their range of services to include all the services we offer. In many instances, our competition is the in-house operations of our potential clients themselves. We cannot be certain that we will be able to compete successfully against these or other competitors who may enter the market in the future.

OUR SALES AND IMPLEMENTATION CYCLES ARE HIGHLY VARIABLE AND MAY CAUSE OUR OPERATING RESULTS TO VARY WIDELY.

The sales cycle for our services is variable, typically ranging between a few weeks to several months from initial contact with the potential client to the signing of a contract. Occasionally sales require substantially more time. Delays in executing client contracts may affect our revenue and cause our operating results to vary widely. We believe that a potential client's decision to purchase our services is discretionary, involves a significant commitment of its resources and is influenced by intense internal and external pricing and operating comparisons. To successfully sell our services, we generally must educate our potential clients regarding the use and benefit of our services, which can require significant time and resources. Consequently, the period between initial contact and the purchase of our services is often long and subject to delays associated with the lengthy approval and competitive evaluation processes that typically accompany significant operational decisions. Additionally, the time required to implement our systems and integrate a new client can range from several weeks to several months. Delays in integrating new clients may affect our revenue and cause our operating results to vary widely.

WE ARE DEPENDENT ON OUR KEY PERSONNEL, AND WE NEED TO HIRE AND RETAIN SKILLED PERSONNEL TO SUSTAIN OUR BUSINESS.

Our performance is highly dependent on the continued services of our executive officers and other key personnel, the loss of any of whom could materially adversely affect our business. We currently do not have employment agreements with any of our executive officers or key personnel. In addition, we need to attract and retain other highly-skilled technical and managerial personnel for whom there is intense competition. We cannot assure you that we will be able to attract and retain the personnel necessary for the continuing growth of our business. Our inability to attract and retain qualified technical and managerial personnel would materially adversely affect our business.

WE ARE SUBJECT TO RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS.

A significant component of our business strategy is to continue to expand internationally. For example, we expect to open by calendar year-end an approximately 150,000 square foot distribution center in Liege, Belgium. We cannot assure you that we will be successful in expanding into additional international markets. In addition to the uncertainty regarding our ability to generate revenue from foreign operations and expand our international presence, there are risks inherent in doing business internationally, including:

- changing regulatory requirements;
- legal uncertainty regarding foreign laws, tariffs and other trade barriers;
- political instability;
- potentially adverse tax consequences; and
- foreign currency fluctuations.

We cannot assure you that one or more of these factors will not materially adversely affect our business.

WE ARE UNCERTAIN ABOUT OUR NEED FOR AND THE AVAILABILITY OF ADDITIONAL FUNDS BEYOND THE FUNDS RAISED IN THIS OFFERING.

Our future capital needs are difficult to predict. We may require additional capital in order to take advantage of unanticipated opportunities, including strategic alliances and acquisitions, or to respond to changing business conditions and unanticipated competitive pressures. Additionally, funds from operations may be less than anticipated. Should these circumstances arise, we may need to raise additional funds either by borrowing money or issuing additional equity. We cannot assure you that we will be able to raise such funds on favorable terms or at all. In addition, although historically we have relied upon Daisytek as our source of funds, Daisytek is not required to provide us with funding in the future, and we will be restricted from borrowing from Daisytek following the spin-off. If we are unable to obtain additional funds, we may be unable to take advantage of new opportunities or take other actions that otherwise might be important to our business.

WE MAY ENGAGE IN FUTURE STRATEGIC ALLIANCES OR ACQUISITIONS THAT COULD DILUTE OUR EXISTING STOCKHOLDERS, CAUSE US TO INCUR SIGNIFICANT EXPENSES OR HARM OUR BUSINESS.

We may review strategic alliance or acquisition opportunities that would complement our current business or enhance our technological capabilities. Integrating any newly acquired businesses, technologies or services, may be expensive and time-consuming. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us and, in the case of equity financings, may result in dilution to our stockholders. In addition, we have limited ability to issue capital stock prior to or after the spin-off. We may not be able to operate any acquired businesses profitably or otherwise implement our growth strategy successfully. If we are unable to integrate any newly acquired entities or technologies effectively, our operating results could suffer. Future acquisitions by us could also result in large and immediate write-offs, incurrence of debt and contingent liabilities, or amortization of expenses related to goodwill and other intangibles, any of which could harm our operating results.

OUR BUSINESS COULD BE ADVERSELY AFFECTED BY A SYSTEMS OR EQUIPMENT FAILURE, WHETHER OUR OWN OR OF OUR CLIENTS.

Our operations are dependent upon our ability to protect our distribution facilities, customer service centers, computer and telecommunications equipment and software systems against damage and failures. If our business is interrupted either from accidents or the intentional acts of others, our business could be materially adversely affected. Damage or failures could result from fire, power loss, equipment malfunctions, system failures, natural disasters and other causes. Our short-term disaster recovery and contingency plans may not be sufficient in the event of widespread damage or failures at our facilities. Our property and business interruption insurance may not adequately compensate us for these losses.

Our clients' businesses may also be harmed from any system or equipment failures we experience. In that event, our relationship with these clients may be adversely affected, we may lose these clients, our ability to attract new clients may be adversely affected and we could be exposed to liability.

Interruptions could also result from the intentional acts of others, like "hackers." If our systems are penetrated by computer hackers, or if computer viruses infect our systems, our computers could fail or proprietary information could be misappropriated.

If our clients suffer similar interruptions in their operations, for any of the reasons discussed above or for others, our business could also be adversely affected. Many of our clients' computer systems interface with our own. If they suffer interruptions in their systems, the link to our systems could be severed and sales of their products could be slowed or stopped.

A BREACH OF OUR E-COMMERCE SECURITY MEASURES COULD REDUCE DEMAND FOR OUR SERVICES.

A requirement of the continued growth of e-commerce is the secure transmission of confidential information over public networks. A party who is able to circumvent our security measures could misappropriate proprietary information or interrupt our operations. Any compromise or elimination of our security could reduce demand for our services.

We may be required to expend significant capital and other resources to protect against security breaches or to address any problem they may cause. Because our activities involve the storage and transmission of proprietary information, such as credit card numbers, security breaches could damage our reputation and expose us to litigation and possible liability. Our security measures may not prevent security breaches, and failure to prevent security breaches may disrupt our operations.

OUR BUSINESS AND SERVICES ARE SUBJECT TO RISKS RELATED TO THE YEAR 2000 PROBLEM.

The "Year 2000" problems of our clients, our internal systems and companies on the Internet generally could materially adversely affect our systems or operations.

RISKS RELATED TO DAISYTEK

OUR BUSINESS MAY BE MATERIALLY ADVERSELY AFFECTED IF DAISYTEK DOES NOT COMPLETE THE SPIN-OFF OF OUR COMPANY.

There are various conditions which must be satisfied, or waived by Daisytek in its sole discretion, prior to the completion of the spin-off. We cannot assure you whether or when these conditions will be satisfied or waived by Daisytek. If any of these conditions are neither satisfied, nor waived by Daisytek, in a timely manner, the spin-off may not be completed. If the spin-off is not completed, we may not realize the benefits we expect to achieve in connection with the spin-off and our business may be materially adversely affected. Even if all of the conditions to the spin-off are satisfied, or waived, we cannot assure you when the spin-off will occur or whether or when we will obtain the expected benefits.

WE DEPEND ON DAISYTEK FOR VARIOUS SERVICES AND FOR A SIGNIFICANT PORTION OF OUR REVENUE.

We have historically been dependent on Daisytek for various services, including facilities, human resources, management information systems, as well as for working capital. We will enter into agreements with Daisytek under which Daisytek will continue to provide certain of these services to us. When the terms of these agreements expire, we will need either to extend the term of these agreements, engage other entities to perform these services or perform these services ourselves. We cannot assure you that Daisytek will continue to provide these services after the initial term of the agreements, or that the cost of these services will not be significantly higher if we purchase services from other parties or devote resources to handle these functions internally.

In addition, we will be providing transaction management services for Daisytek's U.S. wholesale consumable computer supplies business under a five-year agreement. For fiscal 1999, on a supplemental pro forma basis, Daisytek would have been our largest client. We currently expect that Daisytek will remain a significant client for the foreseeable future and a substantial portion of our business will be dependent upon the success of Daisytek's sales and marketing of its products. Daisytek has the right to terminate the agreement, subject to the payment of a termination fee. In

addition, Daisytek has reported that it has experienced, and expects to continue to experience, a decline in sales growth in its U.S. wholesale consumable computer supplies business. This decline may adversely affect our financial condition and results of operations.

All of our agreements with Daisytek were made in the context of a parent-subsi-dary relationship and were negotiated in the overall context of our spin-off from Daisytek. We cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

THROUGH ITS OWNERSHIP OF OUR STOCK, DAISYTEK WILL BE ABLE TO EXERT SUBSTANTIAL INFLUENCE OVER OUR MANAGEMENT AND CORPORATE AFFAIRS.

After the completion of this offering, Daisytek will own approximately 82.2% of our outstanding shares of common stock, or approximately 80.1% if the underwriters exercise their over-allotment option in full. As long as Daisytek owns a majority of our outstanding common stock, Daisytek will continue to be able to elect our entire board of directors and to remove any director, with or without cause, and generally to determine the outcome of all corporate actions requiring stockholder approval. As a result, Daisytek will be in a position to continue to control all matters affecting our company, including:

- the composition of our board of directors and, through it, any decisions with respect to the direction and policies of our company, including the appointment and removal of officers;
- any decisions with respect to mergers or other business combinations involving our company;
- the acquisition or disposition of assets by our company;
- future issuances of common stock or other securities of our company;
- the incurrence of debt by our company;
- amendments, waivers and modifications to our transaction management services agreement with Daisytek and other agreements relating to our spin-off from Daisytek;
- the payment of dividends on our common stock; and
- decisions with respect to treatment of items in those of our tax returns which are consolidated or combined with Daisytek tax returns.

WE MAY HAVE POTENTIAL BUSINESS CONFLICTS OF INTEREST WITH DAISYTEK.

Daisytek will continue to be our largest customer for a significant period of time and, unless and until Daisytek completes the spin-off of our common stock, it will continue to be our controlling stockholder. As a result, conflicts of interest may arise between us and Daisytek in a number of areas, including:

- the nature, quality and pricing of services we provide to Daisytek;
- the nature, quality and pricing of transitional services Daisytek has agreed to provide to us;
- labor, tax, employee benefit and other matters relating to the spin-off of our company from Daisytek;
- the incurrence of debt by our company and business combinations by our company;
- sales or distributions by Daisytek of all or any portion of its ownership interest in our company; and
- Daisytek's ability to control the management and affairs of our company.

We cannot assure you that we will be able to resolve any potential conflicts or that, if resolved, we would not be able to receive more favorable resolution if we were dealing with an unaffiliated party. Our transaction management services agreement with Daisytek and the other agreements we will enter into with Daisytek may be amended from time to time upon agreement between the parties. As long as we are controlled by Daisytek, we cannot assure you that Daisytek would not

require us to agree to an amendment to the transaction management services agreement or any other agreement that may be more or less favorable to us than the current terms of the agreement. In addition, our ability to incur indebtedness, make acquisitions and dispositions and issue stock is restricted under the terms of an agreement that we will enter into with Daisytek.

OUR DIRECTORS MAY HAVE CONFLICTS OF INTEREST BECAUSE THEY ARE ALSO DIRECTORS OF DAISYTEK.

After this offering, all of the members of our board of directors will also be directors of Daisytek and our chairman, chief executive officer and chief financial officer will also serve in such capacities for Daisytek. In addition, many of our executive officers, directors and employees hold shares of Daisytek common stock and options to acquire shares of Daisytek common stock. These individuals may have conflicts of interest with respect to certain decisions involving business opportunities and similar matters that may arise in the ordinary course of our business or the business of Daisytek. Conflicts, if any, could be resolved in a manner adverse to us and our stockholders, which could materially adversely affect our business, results of operations and financial condition.

WE HAVE POTENTIAL LIABILITY TO DAISYTEK FOR TAX INDEMNIFICATION OBLIGATIONS.

We will indemnify Daisytek for any tax liability it suffers arising out of our actions after the spin-off that would cause the spin-off to lose its qualification as a tax-free distribution for federal income tax purposes. In the event that we are required to do so, that indemnification would have a material adverse effect on our business.

WE HAVE POTENTIAL LIABILITY FOR DAISYTEK'S TAX OBLIGATIONS.

For all periods in which Daisytek owns or owned 80% or more of our capital stock, we are included in Daisytek's consolidated group for federal income tax purposes. If Daisytek or other members of the consolidated group fail to make any federal income tax payments, we would be liable for the shortfall since each member of a consolidated group is liable for the group's entire tax obligation.

WE HAVE LIMITED ABILITY TO ISSUE COMMON STOCK PRIOR TO OR AFTER THE SPIN-OFF.

In order for the spin-off to be tax-free to Daisytek and Daisytek's stockholders, we will agree not to issue additional shares of capital stock before the spin-off if it would prevent Daisytek from distributing at least 80% of our capital stock in the spin-off. Similarly, we will agree upon certain limitations during the two-year period after the spin-off, such as issuing an additional amount of our capital stock in a single transaction or series of transactions related to the spin-off which, when combined with the common stock issued in this offering, could cause a 50% or greater change in the vote or value of our outstanding capital stock. These restrictions may impede our ability to complete transactions using our capital stock or to attract qualified persons to become officers or directors.

WE HAVE POTENTIAL LIABILITY AS A GUARANTOR OF DAISYTEK'S INDEBTEDNESS.

Together with several other Daisytek subsidiaries, we are a guarantor of all amounts outstanding under Daisytek's \$85 million line of credit. If Daisytek should default under this line of credit, we may be required to pay under this guaranty which would have a material adverse effect on our business.

OUR HISTORICAL FINANCIAL INFORMATION MAY NOT BE REPRESENTATIVE OF OUR RESULTS AS A SEPARATE COMPANY.

The historical financial information included in this prospectus may not reflect what our results of operations, financial position and cash flows would have been had we been a separate, stand-

alone entity during the periods presented or what our results of operations, financial position and cash flows will be in the future. This is because:

- we made certain adjustments and allocations since Daisytek did not account for us as, and we were not operated as, a single stand-alone business for the periods presented; and
- the information does not reflect many significant changes that will occur in our funding and operations as a result of our separation from Daisytek.

We cannot assure you that the adjustments and allocations we made in preparing our historical combined financial statements appropriately reflect our operations during such periods as if we had, in fact, operated as a stand-alone entity or what the actual effect of our separation from Daisytek will be. Accordingly, we cannot assure you that our historical results of operations are indicative of our future operating or financial performance.

RISKS RELATED TO OUR INDUSTRY

IF THE TREND TOWARD OUTSOURCING DOES NOT CONTINUE, OUR BUSINESS WILL BE ADVERSELY AFFECTED.

Our business could be materially adversely affected if the trend toward outsourcing declines or reverses, or if corporations bring previously outsourced functions back in-house. Particularly during general economic downturns, businesses may bring in-house previously outsourced functions in order to avoid or delay layoffs.

OUR FUTURE GROWTH DEPENDS UPON AN INCREASE IN THE USE OF THE INTERNET AS A MEDIUM FOR E-COMMERCE.

If the use of the Internet as a commercial marketplace does not continue to grow, then our business could be materially adversely affected. The use of the Internet as a commercial marketplace is at an early stage of development. Demand and market acceptance for recently introduced products and services over the Internet are still uncertain. We cannot predict whether customers will be willing to shift their traditional activities on-line. In particular, sales of goods and services over the Internet have developed more slowly outside of the United States. The Internet may not prove to be a viable commercial marketplace for a number of reasons, including:

- concerns about security;
- Internet network congestion;
- inconsistent quality of service; and
- lack of cost-effective, high-speed access.

GOVERNMENTAL REGULATIONS REGARDING THE INTERNET MAY BE ENACTED, WHICH COULD IMPEDE OUR BUSINESS.

The legal and regulatory environment that pertains to the Internet is uncertain and may change. Uncertainty and new regulations could increase our costs of doing business. The growth of the Internet may also be significantly slowed. This could delay growth in demand for our services and limit the growth of our revenue. In addition to new regulations being adopted, existing laws may be applied to the Internet.

OUR MARKET IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND TO COMPETE WE MUST CONTINUALLY ENHANCE OUR SYSTEMS TO COMPLY WITH EVOLVING STANDARDS.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our services and the underlying network infrastructure. If we are unable to adapt to changing market conditions, client requirements or emerging industry standards, our business could be adversely affected. The Internet and e-commerce are characterized by rapid

technological change, changes in user requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our technology and systems obsolete. Our success will depend, in part, on our ability to both internally develop and license leading technologies to enhance our existing services and develop new services. We must continue to address the increasingly sophisticated and varied needs of our clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of proprietary technology involves significant technical and business risks. We may fail to develop new technologies effectively or to adapt our proprietary technology and systems to client requirements or emerging industry standards.

RISKS RELATED TO THIS OFFERING

ABSENCE OF A PRIOR PUBLIC MARKET; MARKET VOLATILITY MAY AFFECT OUR STOCK PRICE.

Prior to this offering, there has been no public market for shares of our common stock. The initial public offering price of the shares of our common stock will be determined by negotiation between representatives of the underwriters and us. This price will not necessarily reflect the market price of the common stock following this offering and you may not be able to resell your shares at or above the initial public offering price.

The market price for our common stock following this offering will be affected by a number of factors, including the following:

- the announcement of new services or service enhancements by us or our competitors;
- quarterly variations in our or our competitors' results of operations;
- changes in earnings estimates or recommendations by securities analysts;
- developments in our industry; and
- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to their operating performance. These factors and fluctuations, as well as general economic, political and market conditions, may materially adversely affect the market price of our common stock.

THE SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK AFTER THIS OFFERING MAY AFFECT OUR STOCK PRICE.

The market price of our common stock could drop as a result of sales of substantial amounts of common stock in the public market after the closing of this offering or the perception that substantial sales could occur. After this offering, Daisytek will own 14,305,000 shares of our common stock. If Daisytek distributes these shares to its stockholders, they will be eligible for immediate resale in the public market, other than any shares held by our affiliates. In addition, upon completion of the spin-off, outstanding Daisytek options held by our employees will be converted into options to purchase our common stock. We cannot predict whether substantial amounts of our common stock will be sold in the open market in anticipation of, or following, any distribution of our shares by Daisytek to its stockholders. Daisytek has the sole discretion to determine the timing, structure and all terms of its distribution of our common stock, all of which may also affect the level of market transactions in our common stock. In addition, these factors could make it more difficult for us to raise funds through future offerings of our common stock.

PURCHASERS OF OUR COMMON STOCK IN THIS OFFERING WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION.

The initial public offering price is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. Accordingly, purchasers of common stock will experience immediate and substantial net tangible book value dilution of approximately \$10.94 per share, or approximately 84.2% of the offering price of \$13.00 per share.

WE DO NOT EXPECT TO PAY DIVIDENDS TO OUR STOCKHOLDERS.

We have not paid any cash dividends on our common stock and anticipate for the foreseeable future that any earnings will be retained for the operation and expansion of our business.

OUR CERTIFICATE OF INCORPORATION, OUR BYLAWS AND DELAWARE LAW MAKE IT DIFFICULT FOR A THIRD PARTY TO ACQUIRE US, DESPITE THE POSSIBLE BENEFIT TO OUR STOCKHOLDERS.

Provisions of our certificate of incorporation, our bylaws and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. For example, our certificate of incorporation provides for a classified board of directors, meaning that only approximately one-third of our directors will be subject to re-election at each annual stockholder meeting. Our certificate of incorporation also permits our Board of Directors to issue one or more series of preferred stock which may have rights and preferences superior to those of the common stock. The ability to issue preferred stock could have the effect of delaying or preventing a third party from acquiring us. These provisions could discourage takeover attempts and could materially adversely affect the price of our stock.

FORWARD-LOOKING STATEMENTS

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

- our reliance on the fees generated by the transaction volume or product sales of our clients;
- trends in the market for our services;
- trends in e-commerce;
- whether we can continue and manage growth;
- changes in the trend toward outsourcing;
- increased competition;
- effects of changes in profit margins;
- the unknown effects of possible system failures and rapid changes in technology;
- trends in government regulation; and
- our relationship with and separation from Daisytek.

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. In evaluating these statements, you should consider various factors, including the risks set forth in the section entitled "Risk Factors" beginning on page 6. These factors may cause our actual results to differ materially from any forward-looking statements.

PROPOSED SPIN-OFF

OUR HISTORY

Our business unit was formed in 1991 as a subsidiary of Daisytek named "Working Capital of America" whose purpose was to provide inventory management, drop-shipping and accounts receivable collections for Daisytek customers and other third parties. Until 1996, our business unit was comprised of operations both at Working Capital of America and at Daisytek. Our business gradually developed as we recognized an opportunity to expand our business and capitalize on Daisytek's strengths in customer service, order management, product fulfillment and distribution, and provide these services on an outsourcing basis. Since 1996, the operations of our business unit have been primarily focused in PFS. We were formed in 1999 to be, upon completion of this offering, a holding company for PFS and to facilitate this initial public offering and spin-off from Daisytek.

SPIN-OFF FROM DAISYTEK

Daisytek's Plan to Spin-off PFSweb

After completion of this offering, Daisytek will own approximately 82.2% of the outstanding shares of our common stock, or approximately 80.1% if the underwriters exercise their over-allotment option in full. Daisytek has announced that it plans to complete the spin-off of our company sometime in mid-2000 (and within one year of the closing of this offering) by distributing all of the shares of our common stock it then holds to its stockholders. We refer to this distribution as the "spin-off."

Because there are certain conditions to effecting the spin-off, Daisytek has advised us that it has not yet definitively determined whether and when it expects to complete the spin-off. These conditions include:

- Receipt by Daisytek of a ruling by the Internal Revenue Service that, among certain other tax consequences of the transaction, the spin-off will qualify as a tax-free distribution for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek or its shareholders. Daisytek may, in its sole and absolute discretion, determine not to seek such a ruling and instead proceed on the basis of an opinion from its professional advisor, in form and substance reasonably satisfactory to it, as to the qualification of the transaction for tax-free treatment.
- Obtaining any material consents necessary to consummate the spin-off which shall be in full force and effect.
- No court orders, injunctions, decrees, regulations or other legal restraint prohibiting or restricting the completion of the spin-off shall exist.
- No events or developments shall have occurred subsequent to the closing of this offering that, in the sole judgement of Daisytek, would result in the spin-off having a materially adverse effect on Daisytek, PFSweb, or their shareholders.

Benefits of the Spin-off

We believe we will realize certain benefits from our separation from Daisytek. As an independent company, we expect to be better able to take advantage of various benefits, including the ones discussed below.

- To Raise Equity Capital on a Substantially More Cost Effective Basis. We believe that capital for PFSweb can be raised in a substantially more cost effective basis through an offering of our stock, rather than Daisytek stock. We also believe that we would be able to raise capital

on a substantially more effective basis if Daisytek announced its plan to complete the spin-off of our company.

- Better Incentives for Employees and Greater Accountability. We expect that the motivation of our employees and the focus of our management will be strengthened by incentive compensation programs tied to the market performance of stock representing an interest solely in our business unit. The separation will allow better and more direct incentives for our employees and management. As a separate, publicly traded company after the spin-off, we will be able to implement stock-based compensation plans for our employees and management, which will be focused entirely on the successful results and achievements of our business. For example, as a separate, publicly traded company, we will be able to tie incentive compensation of our employees more closely to the results of our business segment. We believe this will enhance our ability to attract and retain qualified personnel.
- Competition. We believe that our ability to market our services to certain manufacturers of certain products may be hampered by our ownership by Daisytek. In particular, we believe that for certain manufacturers, our separation from Daisytek would reduce or eliminate any potential channel conflicts as well as any concern regarding the potential disclosure of proprietary information.
- Greater Strategic Focus. As a result of having our own board of directors and separate management team, we expect to have a sharper focus on our business and strategic opportunities. We will also have greater ability to modify business processes to better fit the needs of our customers, business units and employees.

Separation, Transaction Management and Transitional Arrangements

Concurrently with the completion of this offering, we and Daisytek will enter into certain agreements providing for the separation of our business from Daisytek, including a master separation agreement. These agreements generally provide for various interim and ongoing relationships between the parties. Under these agreements, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek \$5.7 million in cash and assume \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets. In connection with this offering, we will also repay our payable to Daisytek. In addition, we and Daisytek will enter into a transaction management services agreement under which we will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business and a transition services agreement under which Daisytek will provide us with certain transitional services.

All of our agreements with Daisytek were made in the context of a parent-subsiidiary relationship and were negotiated in the overall context of our separation from Daisytek. Although we generally believe that the terms of these agreements are consistent with fair market values, we cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

For more information regarding the separation arrangements, see "Certain Transactions."

USE OF PROCEEDS

Assuming an initial public offering price of \$13.00 per share, we will receive net proceeds of approximately \$35.5 million from the sale of 3,100,000 shares of common stock in this offering (\$41.1 million if the underwriters exercise their over-allotment option in full). We intend to use the net proceeds of this offering:

- to repay an intercompany payable to Daisytek (\$ million as of October 31, 1999) which is payable on demand and accrues interest at a fluctuating rate equal to Daisytek's cost of funds (% as of October 31, 1999);
- to acquire certain assets from Daisytek of approximately \$ million;
- for presently anticipated capital expenditures of approximately \$ million; and
- for general working capital and possible acquisitions.

DIVIDEND POLICY

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not currently anticipate paying any cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth the Company's cash and capitalization as of June 30, 1999:

- on an actual basis;
- on a pro forma basis after giving effect to the following:
 - the contribution from Daisytek of \$20,000 for 14,305,000 shares of our common stock;
 - the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital; and
 - the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of \$13.00 per common share, and the application of the estimated \$35.5 million net proceeds to reduce the payable to Daisytek; and
- on a supplemental pro forma basis after giving effect to the following:
 - as of October 1, 1999, we have restructured our agreements with IBM. Under our prior agreements, our services for IBM included serving as a master distributor and purchasing and reselling the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue) and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, as of October 1, 1999, we transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek will pay to us the net value of these assets and liabilities (approximately \$15.3 million as of June 30, 1999). From this amount, we will pay to Daisytek the remaining balance of the payable to Daisytek of approximately \$1.9 million as of June 30, 1999); and
 - upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek \$5.7 million in cash and assume \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets.

This table should be read in conjunction with "Use of Proceeds," "Selected Combined Historical and Pro Forma Financial and Other Data," the "Combined Financial Statements" and related notes, the "Pro Forma and Supplemental Pro Forma Combined Financial Statements" and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	AS OF JUNE 30, 1999		
	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(IN THOUSANDS, EXCEPT SHARE DATA)		
Cash.....	\$ 2,408	\$ 2,428	\$10,088
Payable to Daisytek.....	\$37,349	\$ 1,870	\$ --
Capital Lease Obligation.....	--	--	260
Shareholders' Equity:			
Preferred stock, \$1.00 par value; 1,000,000 shares authorized, none issued and outstanding.....	--	--	--
Common stock, no par value; 40,000,000 shares authorized; 17,405,000 shares issued and outstanding (pro forma and supplemental pro forma).....	--	--	--
Additional paid-in capital.....	--	36,153	36,153
Daisytek's net equity investment.....	654	--	--
Accumulated other comprehensive income.....	(188)	(188)	(188)
Total shareholders' equity.....	466	35,965	35,965
Total capitalization.....	\$37,815	\$37,835	\$36,225

DILUTION

The net tangible book value of our common stock as of June 30, 1999 was \$0.3 million, or \$0.02 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the total number of shares of common stock outstanding prior to this offering.

After giving effect to this offering and the receipt of \$35.5 million of net proceeds from this offering (based on an assumed initial public offering price of \$13.00 per share), the pro forma net tangible book value of the common stock as of June 30, 1999 would have been approximately \$35.8 million, or \$2.06 per share. This amount represents an immediate increase in net tangible book value of \$2.04 per share to Daisytek, our existing stockholder, and an immediate dilution in net tangible book value of \$10.94 per share to purchasers of common stock in this offering. Dilution is determined by subtracting pro forma net tangible book value per share after this offering from the amount of cash paid by a new investor for a share of common stock. The following table illustrates such dilution:

Assumed initial public offering price per share.....	\$13.00
Net tangible book value per share at June 30, 1999.....	\$0.02
Increase in pro forma net tangible book value per share attributable to new investors.....	2.04

Pro forma net tangible book value per share after this offering.....	2.06

Dilution per share to new investors.....	\$10.94
	=====

The following table sets forth, as of June 30, 1999, on the pro forma basis described above, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing stockholder and by new investors who purchase shares of common stock in this offering, before deducting the estimated underwriting discounts and commissions and offering expenses.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing					
Stockholder(1)(2).....	14,305,000	82.2%	\$ 20,000	0.1%	\$ 0.01
New Investors(2).....	3,100,000	17.8	40,300,000	99.9	13.00
	-----	-----	-----	-----	-----
Total.....	17,405,000	100.0%	\$40,320,000	100.0%	
	=====	=====	=====	=====	

- (1) If the Underwriters' over-allotment option is exercised in full, sales in this offering will reduce the number of shares of common stock held by the existing stockholder to approximately 80.1% of the total shares of common stock outstanding after the offering and will increase the number of shares held by new investors to 3,565,000, or approximately 19.9% of the total shares of common stock outstanding after the offering. See "Underwriting."
- (2) The foregoing table excludes outstanding stock options to purchase an aggregate of 1,376,500 shares of common stock at a weighted average exercise price of \$10.51 per share. In addition, upon completion of the spin-off, stock options exercisable for shares of Daisytek common stock held by PFSweb employees will be converted into stock options exercisable for shares of our common stock. It is not possible to specify how many shares of our common stock will be subject to such stock options, as it is not known how many stock options to purchase Daisytek common stock held by PFSweb employees will remain unexercised and outstanding by the record date for the spin-off. However, based on the number of options to purchase Daisytek common stock held by PFSweb employees outstanding on _____, 1999, options to purchase _____ shares of Daisytek common stock would become options to purchase _____ shares of PFSweb common stock at an estimated weighted average exercise price

of \$ per share, based on the three day average market price of Daisytek common stock ending on , 1999 (\$) and the mid-point of the range of the estimated initial public offering price of our common stock (\$13.00). If these options are exercised, further dilution to new investors will occur. We may also issue additional shares of common stock upon exercise of future stock option grants or equity awards, which could also result in additional dilution to then-existing stockholders.

SELECTED COMBINED HISTORICAL AND PRO FORMA FINANCIAL AND OTHER DATA

The following information sets forth our selected combined historical and pro forma financial and other data as of the dates and for the periods indicated. Because we believe that our historical financial statements may not provide a meaningful basis for analyzing our business in the future, we have presented our financial data in the following formats:

- Historical Presentation;
- Pro Forma and Supplemental Pro Forma Presentation; and
- Fee Equivalent Presentation.

HISTORICAL PRESENTATION

The selected combined historical statement of operations data and balance sheet data for each of the fiscal years ended March 31, 1997 through 1999, have been derived from our audited combined financial statements and should be read in conjunction with those statements and notes included elsewhere in this prospectus. The selected combined historical statement of operations data for the fiscal years ended March 31, 1995 and 1996 and the three months ended June 30, 1998 and 1999 and the selected combined historical balance sheet data as of March 31, 1995 and 1996 and June 30, 1999 have been derived from our unaudited combined financial statements, and include, in our opinion, all normal, recurring adjustments necessary for a fair presentation of the financial position at such dates and the results of operations for such respective periods. The financial information herein may not necessarily reflect our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented.

PRO FORMA AND SUPPLEMENTAL PRO FORMA PRESENTATION

The pro forma and supplemental pro forma financial data have been derived from our unaudited pro forma and supplemental pro forma combined financial statements which were prepared to illustrate the effects of certain transactions and events and the application of the net offering proceeds. The unaudited pro forma and supplemental pro forma combined statement of operations data have been prepared as if the transactions and events described below had occurred as of the beginning of the respective periods presented. The unaudited pro forma and supplemental pro forma combined balance sheet data have been prepared as if these transactions and events had occurred as of June 30, 1999. The unaudited pro forma and supplemental pro forma combined financial data do not purport to represent what our results of operations or financial position would actually have been if this offering and the transactions and events had in fact occurred on such dates or to project our results of operations or financial position for any future date or period. For a more complete discussion, this data should be read in conjunction with the "Combined Financial Statements and Related Notes," the "Unaudited Condensed Interim Combined Financial Statements and the Related Notes," the "Pro Forma and Supplemental Pro Forma Combined Financial Statements and the Related Notes," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The unaudited pro forma financial data gives effect to the following transactions and events:

- the contribution from Daisytek of \$20,000 for 14,305,000 shares of our common stock;
- the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital;
- the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of \$13.00 per common share, and the application of the estimated \$35.5 million net proceeds to reduce the payable to Daisytek and to reduce interest expense previously charged by Daisytek; and

- the incremental costs we expect to incur as a stand-alone publicly traded company.

The unaudited supplemental pro forma financial data gives effect to the following transactions and events:

- as of October 1, 1999, we have restructured our agreements with IBM. Under our prior agreements, our services for IBM included serving as a master distributor and purchasing and reselling the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue) and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, as of October 1, 1999, we transferred to Daisytek the IBM related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek will pay to us the net value of these assets and liabilities (approximately \$15.3 million as of June 30, 1999). From this amount, we will repay to Daisytek the remaining balance of the payable to Daisytek (approximately \$1.9 million as of June 30, 1999);
- upon completion of this offering, we will enter into a transaction management services agreement with Daisytek under which we will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business; and
- upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFWeb, and we will transfer to Daisytek \$5.7 million in cash and assume \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets.

We believe the estimates and assumptions used to prepare the unaudited pro forma and supplemental pro forma combined financial data provide a reasonable basis for presenting the significant effects of this offering and the transactions discussed above, and that the pro forma and supplemental pro forma adjustments give appropriate effect to the estimates and the assumptions and are properly applied in the unaudited pro forma combined financial data.

FEE EQUIVALENT PRESENTATION

We have provided a "fee equivalent" presentation to show how we evaluate our business internally and how we will present our financial statements in the future because of our new arrangements with IBM and Daisytek. The "fee equivalent" presentation reflects the gross profits that we generated from our business with IBM as service fee revenue. We historically recorded the IBM related revenue as product revenue and related product costs as costs of product revenue because, under our prior agreements with IBM, our services included acting as a master distributor and purchasing and reselling the IBM inventory to customers. Under our new arrangements with IBM, we will record revenue generated by our business with IBM and Daisytek as service fee revenue. In addition, this presentation includes a reclassification of certain historically recognized selling, general and administrative expenses to cost of service fee revenue. We have excluded the following items from this fee equivalent presentation, which are reflected in the supplemental pro forma financial data:

- the impact of our new transaction management services agreement with Daisytek that will begin upon completion of this offering; and

- the reduction in service fee revenue and gross profit under our new arrangements with IBM and Daisytek because certain services that we currently provide to IBM will be provided by Daisytek.

HISTORICAL, PRO FORMA AND SUPPLEMENTAL PRO FORMA FINANCIAL DATA

	FISCAL YEARS ENDED MARCH 31,				FISCAL YEAR ENDED MARCH 31, 1999		
	1995	1996	1997	1998	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)				(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)		
COMBINED STATEMENT OF OPERATIONS DATA:							
Revenues:							
Product revenue.....	\$ --	\$ --	\$16,543	\$45,804	\$ 93,702	\$ 93,702	\$ --
Service fee revenue.....	65	111	1,034	3,539	7,547	7,547	31,510
Total revenues.....	65	111	17,577	49,343	101,249	101,249	31,510
Costs of revenues:							
Cost of product revenue.....	--	--	15,768	43,392	88,335	88,335	--
Cost of service fee revenue.....	65	67	596	2,208	5,323	5,323	18,526
Total costs of revenues.....	65	67	16,364	45,600	93,658	93,658	18,526
Gross profit.....	--	44	1,213	3,743	7,591	7,591	12,984
Percent of revenues.....	--%	39.6%	6.9%	7.6%	7.5%	7.5%	41.2%
Selling, general and administrative expenses.....	--	--	1,058	3,645	6,559	8,868	8,632
Income (loss) from operations.....	--	44	155	98	1,032	(1,277)	4,352
Percent of revenues.....	--	39.6%	0.9%	0.2%	1.0%	(1.3)%	13.8%
Interest (income) expense, net....	41	53	77	143	374	(665)	(291)
Income (loss) before income taxes.....	(41)	(9)	78	(45)	658	(612)	4,643
Provision (benefit) for income taxes.....	(16)	(2)	44	(7)	273	(184)	1,700
Net income (loss).....	\$ (25)	\$ (7)	\$ 34	\$ (38)	\$ 385	\$ (428)	\$ 2,943
PER SHARE DATA:							
Net income (loss) per share:							
Basic and diluted(a).....	\$ (0.00)	\$ (0.00)	\$ 0.00	\$(0.00)	\$ 0.03	\$ (0.02)	\$ 0.17
Weighted average number of shares outstanding:							
Basic and diluted(a).....	14,305	14,305	14,305	14,305	14,305	17,405	17,405

(a) On an historical basis, reported basic and diluted net income per share was determined based on net income divided by the 14,305,000 shares outstanding prior to this offering. For purposes of the net income per share calculation, the shares outstanding prior to this offering are treated as outstanding for all historical periods presented. Basic and diluted pro forma and supplemental pro forma net income per share are calculated based on common stock outstanding of 17,405,000 shares upon completion of this offering. It does not include up to 465,000 shares of common stock which the underwriters have the option to exercise solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, basic and diluted pro forma net loss per share would be (\$0.02) and basic and diluted supplemental pro forma net income per share would be \$0.16 for the fiscal year ended March 31, 1999 and basic and diluted pro forma net loss per share would be (\$0.02) and basic and diluted supplemental pro forma net income per share would be \$0.02 for the three months ended June 30, 1999. There were no potentially dilutive securities outstanding during the periods presented.

	THREE MONTHS ENDED JUNE 30, 1998	THREE MONTHS ENDED JUNE 30, 1999		
		ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)				
COMBINED STATEMENT OF OPERATIONS DATA (CONTINUED):				
Revenues:				
Product revenue.....	\$20,424	\$32,620	\$32,620	\$ --
Service fee revenue.....	1,004	3,191	3,191	9,250
Total revenues.....	21,428	35,811	35,811	9,250
Costs of revenues:				
Cost of product revenue.....	19,345	30,793	30,793	--
Cost of service fee revenue.....	834	2,231	2,231	5,827
Total costs of revenues.....	20,179	33,024	33,024	5,827
Gross profit.....	1,249	2,787	2,787	3,423
Percent of revenues.....	5.8%	7.8%	7.8%	37.0%
Selling, general and administrative expenses.....	1,154	2,788	3,384	3,116
Income (loss) from operations.....	95	(1)	(597)	307
Percent of revenues.....	0.4%	--%	(1.7)%	3.3%
Interest (income) expense, net.....	53	326	(96)	(141)
Income (loss) before income taxes.....	42	(327)	(501)	448
Provision (benefit) for income taxes.....	17	(129)	(166)	177
Net income (loss).....	\$ 25	\$ (198)	\$ (335)	\$ 271
PER SHARE DATA:				
Net income (loss) per share:				
Basic and diluted(a).....	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ 0.02
Weighted average number of shares outstanding:				
Basic and diluted(a).....	14,305	14,305	17,405	17,405

	AS OF MARCH 31,					AS OF JUNE 30, 1999		
	1995	1996	1997	1998	1999	ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
(IN THOUSANDS)								
(UNAUDITED)					(UNAUDITED)			
COMBINED BALANCE SHEET DATA:								
Working capital.....	\$507	\$579	\$ 5,757	\$ 1,344	\$14,636	\$20,819	\$20,839	\$13,181
Total assets.....	524	591	15,614	20,911	69,057	67,967	67,987	39,455
Long-term obligations.....	550	629	5,851	1,780	28,889	37,349	1,870	260
Shareholders' equity (deficit).....	(43)	(49)	2	(108)	721	466	35,965	35,965

FEE EQUIVALENT FINANCIAL DATA

	FISCAL YEARS ENDED MARCH 31,					THREE MONTHS ENDED JUNE 30,	
	1995	1996	1997	1998	1999	1998	1999
	(UNAUDITED)					(UNAUDITED)	
	(IN THOUSANDS)					(IN THOUSANDS)	
OTHER OPERATIONS DATA:							
Service fee revenues.....	\$ 65	\$ 111	\$ 1,809	\$ 5,951	\$ 12,914	\$ 2,083	\$ 5,018
Cost of service fee revenues.....	65	67	787	3,075	6,881	1,183	2,895
Gross profit.....	--	44	1,022	2,876	6,033	900	2,123
Percent of revenues.....	--%	39.6%	56.5%	48.3%	46.7%	43.2%	42.3%
Selling, general and administrative expenses.....	--	--	867	2,778	5,001	805	2,124
Income (loss) from operations.....	--	44	155	98	1,032	95	(1)
Percent of revenues.....	--%	39.6%	8.6%	1.6%	8.0%	4.6%	--%
Interest expense, net.....	41	53	77	143	374	53	326
Income (loss) before income taxes.....	(41)	(9)	78	(45)	658	42	(327)
Provision (benefit) for income taxes.....	(16)	(2)	44	(7)	273	17	(129)
Net income (loss).....	\$ (25)	\$ (7)	\$ 34	\$ (38)	\$ 385	\$ 25	\$ (198)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the combined financial statements and related notes thereto appearing elsewhere in this prospectus.

OVERVIEW

We are an international provider of transaction management services to both traditional and e-commerce companies. We offer a comprehensive suite of services, including order management, customer care services, billing services, information management and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete transaction management infrastructure requirements to a single source. We currently provide transaction management services to over 30 clients that operate in a range of vertical markets, including apparel, computer products, printers, sporting goods and consumer electronics, among others. Our clients include various divisions of IBM, Hewlett-Packard, Thomson Consumer Electronics, Nokia, Tektronix, Global Sports Interactive, American Eagle Outfitters and ISA International plc.

Our service fee revenue is typically charged on a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for call center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors. Many of our contracts with our clients involve third-party vendors who provide additional services such as package delivery. The costs we are charged by these third-party vendors for these services are typically passed on to our clients (and, in many cases, our clients' customers) and are generally not reflected in our revenue or expense. Historically, our services have also included purchasing and reselling client product inventory. In these arrangements, our product revenue was recognized at the time product was shipped. As of October 1, 1999, our primary client agreement under which we previously purchased and sold inventory will be restructured to provide transaction management services only on a service fee basis.

Our expenses are comprised of:

- on an historical basis, cost of product revenue, which consists of the purchase price of product sold and net freight costs;
- cost of service fee revenue, which consists primarily of compensation and related expenses for our customer care and fulfillment centers and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses; and
- selling, general and administrative expenses, which consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, on an historical basis, certain direct contract costs related to our IBM master distributor agreements have been reflected as selling and administrative expenses.

RESULTS OF OPERATIONS

Historical Presentation

The following table sets forth certain historical financial information from our audited and unaudited combined statements of operations expressed as a percent of revenues.

	FISCAL YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1997	1998	1999	1998	1999
Product revenue.....	94.1%	92.8%	92.5%	95.3%	91.1%
Service fee revenue.....	5.9	7.2	7.5	4.7	8.9
Total revenues.....	100.0	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue).....	95.3	94.7	94.3	94.7	94.4
Cost of service fee revenue (as % of service fee revenue).....	57.6	62.4	70.5	83.1	69.9
Total costs of revenues.....	93.1	92.4	92.5	94.2	92.2
Gross profit.....	6.9	7.6	7.5	5.8	7.8
Selling, general and administrative expenses.....	6.0	7.4	6.5	5.4	7.8
Income from operations.....	0.9	0.2	1.0	0.4	--
Interest expense, net.....	0.5	0.3	0.4	0.2	0.9
Income (loss) before income taxes.....	0.4	(0.1)	0.6	0.2	(0.9)
Provision (benefit) for income taxes.....	0.2	0.0	0.2	0.1	(0.3)
Net income (loss).....	0.2%	(0.1)%	0.4%	0.1%	(0.6)%

Fee Equivalent Presentation

The following table sets forth certain financial information from our unaudited combined statements of operations on a fee equivalent basis expressed as a percent of revenues. (See "Selected Combined Historical and Pro Forma Financial and Other Data" for further discussion.)

	FISCAL YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1997	1998	1999	1998	1999
Service fee revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of service fee revenues.....	43.5	51.7	53.3	56.8	57.7
Gross profit.....	56.5	48.3	46.7	43.2	42.3
Selling, general and administrative expenses.....	47.9	46.7	38.7	38.6	42.3
Income from operations.....	8.6	1.6	8.0	4.6	0.0
Interest expense, net.....	4.3	2.3	2.9	2.6	6.5
Income (loss) before income taxes.....	4.3	(0.7)	5.1	2.0	(6.5)
Provision (benefit) for income taxes.....	2.4	(0.1)	2.1	0.8	(2.6)
Net income (loss).....	1.9%	(0.6)%	3.0%	1.2%	(3.9)%

THREE MONTH PERIOD ENDED JUNE 30, 1999 COMPARED TO THREE MONTH PERIOD ENDED JUNE 30, 1998

Historical Comparison

Product Revenue. Product revenue was \$32.6 million for the three months ended June 30, 1999 as compared to \$20.4 million for the three months ended June 30, 1998, an increase of \$12.2 million or 59.7%. Product revenue increased as a result of higher sales volumes under our North American IBM master distributor agreements and the addition of new European IBM distributor agreements entered into during December 1998.

Service Fee Revenue. Service fee revenue was \$3.2 million during the three months ended June 30, 1999 as compared to \$1.0 million during the three months ended June 30, 1998, an increase of \$2.2 million or 217.8%. The increase in service fee revenue was primarily due to growth in client orders processed under both new and existing fee-based contracts.

Cost of Product Revenue. Cost of product revenue was \$30.8 million during the three months ended June 30, 1999 as compared to \$19.3 million during the three months ended June 30, 1998, an increase of \$11.5 million or 59.2%. Cost of product revenue as a percent of product revenue was 94.4% during the three months ended June 30, 1999 and 94.7% during the three months ended June 30, 1998. The resulting product gross profit margin was 5.6% during the three months ended June 30, 1999 and 5.3% during the three months ended June 30, 1998. The increase in product gross profit margin was related to changes in customer and product mix.

Cost of Service Fee Revenue. Cost of service fee revenue was \$2.2 million for the three months ended June 30, 1999 as compared to \$0.8 million during the three months ended June 30, 1998, an increase of \$1.4 million or 167.5%. The increase in cost of service fee revenue during the three months ended June 30, 1999 was due to increased activity from growth in existing contracts as well as new client relationships. The resulting service fee gross profit margin was 30.1% during the three months ended June 30, 1999 and 16.9% during the three months ended June 30, 1998. The increase in service fee gross profit margin was due to certain initial incremental costs incurred to implement several new contracts during the three months ended June 30, 1998.

Gross Profit. Gross profit was \$2.8 million for the three months ended June 30, 1999 or 7.8% of revenues as compared to \$1.2 million or 5.8% of revenues for the three months ended June 30, 1998. The increase in gross profit margin resulted from increased service fee revenues, which typically earn higher gross profit margins, during the three months ended June 30, 1999.

Selling, General and Administrative Expenses. SG&A expenses were \$2.8 million for the three months ended June 30, 1999 or 7.8% of revenues as compared to \$1.2 million or 5.4% of revenues for the three months ended June 30, 1998. SG&A expenses increased primarily as a result of costs incurred to support the higher sales volumes under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

Interest Expense, Net. Interest expense was \$0.3 million for the three months ended June 30, 1999 as compared to \$0.1 million for the three months ended June 30, 1998. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements. The weighted average interest rate was 6.11% during the three months ended June 30, 1999 and 7.15% during the three months ended June 30, 1998.

Income Taxes. Our effective tax rate was 39.4% for the three months ended June 30, 1999 and 40.5% for the three months ended June 30, 1998.

Fee Equivalent Comparison

Fee Equivalent Revenues. Fee equivalent revenues were \$5.0 million for the three months ended June 30, 1999 as compared to \$2.1 million for the three months ended June 30, 1998, an

increase of \$2.9 million or 140.9%. Fee equivalent revenues increased primarily due to growth in client orders processed under both existing and new client relationships.

Fee Equivalent Gross Profit. Our fee equivalent gross profit was \$2.1 million or 42.3% of fee equivalent revenues for the three months ended June 30, 1999 as compared to \$0.9 million or 43.2% of fee equivalent revenues for the three months ended June 30, 1998. Our IBM master distributor agreements have historically earned a higher fee equivalent gross profit margin than our other service fee contracts. As the overall fee equivalent revenues of these IBM agreements have declined as a percent of total fee equivalent revenues, the overall fee equivalent gross profit margin has declined.

Fee Equivalent Selling, General and Administrative Expenses. Fee equivalent SG&A expenses were \$2.1 million for the three months ended June 30, 1999 or 42.3% of fee equivalent revenues as compared to \$0.8 million or 38.6% of fee equivalent revenues for the three months ended June 30, 1998. The increase in fee equivalent SG&A expenses was primarily a result of costs incurred to support growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased fee equivalent SG&A expenses.

FISCAL YEAR ENDED MARCH 31, 1999 COMPARED TO FISCAL YEAR ENDED MARCH 31, 1998

Historical Comparison

Product Revenue. Product revenue was \$93.7 million for fiscal 1999 compared to \$45.8 million for fiscal 1998, an increase of \$47.9 million or 104.6%. Product revenue increased as a result of higher sales volumes under our North American IBM master distributor agreements and the addition of new European IBM distributor agreements entered into in December 1998.

Service Fee Revenue. Service fee revenue was \$7.5 million during fiscal 1999 as compared to \$3.5 million during fiscal 1998, an increase of \$4.0 million or 113.3%. The increase in service fee revenue was primarily due to growth in client orders processed under both new and existing fee-based contracts.

Cost of Product Revenue. Cost of product revenue was \$88.3 million during fiscal 1999 as compared to \$43.4 million during fiscal 1998, an increase of \$44.9 million or 103.6%. Cost of product revenue as a percent of product revenue was 94.3% for fiscal 1999 and 94.7% for fiscal 1998. The resulting product gross profit margin was 5.7% for fiscal 1999 and 5.3% for fiscal 1998. The increase in product gross profit margin was related to changes in customer and product mix.

Cost of Service Fee Revenue. Cost of service fee revenue was \$5.3 million for fiscal 1999 compared to \$2.2 million during fiscal 1998, an increase of \$3.1 million or 141.1%. The increase in cost of service fee revenue during fiscal 1999 was due to growth in client orders processed during the period. The resulting service fee gross profit margin was 29.5% during fiscal 1999 and 37.6% during fiscal 1998. The decrease in service fee gross profit margin was due to the addition of certain large contracts at lower gross profit margins and incremental costs related to implementing several new contracts during fiscal 1999.

Gross Profit. Our gross profit was \$7.6 million or 7.5% of revenues for fiscal 1999 as compared to \$3.7 million or 7.6% of revenues for fiscal 1998.

Selling, General and Administrative Expenses. SG&A expenses for fiscal 1999 were \$6.6 million or 6.5% of revenues as compared to \$3.6 million or 7.4% of revenues for fiscal 1998. The increase in SG&A expenses for fiscal 1999 was a result of costs incurred to support the growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

Interest Expense, Net. Interest expense was \$0.4 million during fiscal 1999 and \$0.1 million during fiscal 1998. Interest expense increased as a result of an increase in the average payable to

Daisytek to support working capital requirements applicable primarily to our master distributor agreements. The weighted average interest rate was 6.7% during fiscal 1999 and 6.9% during fiscal 1998.

Income Taxes. Our effective tax rate was 41.5% for fiscal 1999 as compared to an effective tax rate benefit of 15.6% for fiscal 1998. The change in the effective tax rate was the result of an increase in earnings of our U.S. operations relative to our international operations at a lower marginal tax rate than our international operations combined with certain nondeductible expenses in fiscal 1998.

Fee Equivalent Comparison

Fee Equivalent Revenues. Fee equivalent revenues were \$12.9 million for fiscal 1999 as compared to \$6.0 million for fiscal 1998, an increase of \$6.9 million or 117.0%. Fee equivalent revenues increased primarily due to growth in client orders processed under both existing and new client relationships.

Fee Equivalent Gross Profit. Our fee equivalent gross profit was \$6.0 million or 46.7% of fee equivalent revenues for fiscal 1999 as compared to \$2.9 million or 48.3% of fee equivalent revenues for fiscal 1998. Our IBM master distributor agreements have historically earned a higher fee equivalent gross profit margin than our other service fee contracts. As the overall fee equivalent revenues of these IBM agreements have declined as a percent of total fee equivalent revenues, the overall fee equivalent gross profit margin has declined.

Fee Equivalent Selling, General and Administrative Expenses. Fee equivalent SG&A expenses were \$5.0 million for fiscal 1999 or 38.7% of fee equivalent revenues as compared to \$2.8 million or 46.7% of fee equivalent revenues for fiscal 1998. The increase in fee equivalent SG&A expenses for fiscal 1999 was primarily the result of growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased fee equivalent SG&A expenses. The improvement in the fee equivalent SG&A percentage was due to our ability to leverage existing infrastructure costs.

FISCAL YEAR ENDED MARCH 31, 1998 COMPARED TO FISCAL YEAR ENDED MARCH 31, 1997

Historical Comparison

Product Revenue. Product revenue was \$45.8 million for fiscal 1998 as compared to \$16.5 million for fiscal 1997, an increase of \$29.3 million or 176.9%. Product revenue increased during fiscal 1998 as a result of higher sales volumes of products under our IBM master distributor agreements.

Service Fee Revenue. Service fee revenue was \$3.5 million during fiscal 1998 as compared to \$1.0 million during fiscal 1997, an increase of \$2.5 million or 242.3%. The increase in service fee revenue was primarily due to growth in client orders processed under both new and existing fee-based contracts.

Cost of Product Revenue. Cost of product revenue was \$43.4 million during fiscal 1998 as compared to \$15.8 million during fiscal 1997, an increase of \$27.6 million or 175.2%. Cost of product revenue as a percent of product revenue was 94.7% for fiscal 1998 and 95.3% for fiscal 1997. The resulting product gross profit margin was 5.3% for fiscal 1998 and 4.7% for fiscal 1997. The increase in product gross profit margin was related to changes in customer and product mix.

Cost of Service Fee Revenue. Cost of service fee revenue was \$2.2 million for fiscal 1998 as compared to \$0.6 million for fiscal 1997, an increase of \$1.6 million or 270.5%. The increase in cost of service fee revenue during fiscal 1998 was due to growth in client orders processed during the period. The resulting service fee gross profit margin was 37.6% during fiscal 1998 and 42.4% during

fiscal 1997. The decrease in service fee gross profit margin was due to the addition of certain large contracts at lower gross profit margins.

Gross Profit. Our gross profit was \$3.7 million or 7.6% of revenues for fiscal 1998 as compared to \$1.2 million or 6.9% of revenues for fiscal 1997. The increase in our gross profit for fiscal 1998 was primarily the result of increased product revenue. The increase in our gross profit margin resulted from increased service fee revenues, which typically earn higher gross profit margins, during fiscal 1998.

Selling, General and Administrative Expenses. SG&A expenses were \$3.6 million for fiscal 1998 or 7.4% of revenues as compared to \$1.1 million or 6.0% of revenues for fiscal 1997. The increase in SG&A expenses for fiscal 1998 was primarily the result of higher sales volumes under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

Interest Expense, Net. Interest expense was \$0.1 million during each of fiscal 1998 and fiscal 1997. Interest expense increased slightly as a result of an increase in the average payable to Daisytek to support our working capital requirements applicable primarily to its master distributor agreements. The weighted average interest rate was 6.9% during fiscal 1998 and 6.1% during fiscal 1997.

Income Taxes. Our effective tax rate benefit was 15.6% for fiscal 1998 compared to an effective tax rate of 56.4% for fiscal 1997. The change in the effective tax rate was the result of an increase in earnings of our U.S. operations relative to our international operations at a lower marginal tax rate than our international operations combined with certain nondeductible expenses in fiscal 1998.

Fee Equivalent Comparison

Fee Equivalent Revenues. Fee equivalent revenues were \$6.0 million for fiscal 1998 as compared to \$1.8 million for fiscal 1997, an increase of \$4.2 million or 229.0%. Fee equivalent revenues increased due to growth in client orders processed under existing and new client relationships.

Fee Equivalent Gross Profit. Our fee equivalent gross profit was \$2.9 million or 48.3% of fee equivalent revenues for fiscal 1998 as compared to \$1.0 million or 56.5% of fee equivalent revenues for fiscal 1997. Our IBM master distributor agreements have historically earned a higher fee equivalent gross profit margin than our other service fee contracts. As the overall fee equivalent revenues of these IBM agreements have declined as a percent of total fee equivalent revenues, the overall gross profit margin has declined.

Fee Equivalent Selling, General and Administrative Expenses. Fee equivalent SG&A expenses were \$2.8 million for fiscal 1998 or 46.7% of fee equivalent revenues as compared to \$0.9 million or 47.9% of fee equivalent revenues for fiscal 1997. The increase in fee equivalent SG&A expenses for fiscal 1998 was primarily the result of growth in client orders processed. Incremental investments in resources and technology to support our continued growth also contributed to increased fee equivalent SG&A expenses. The improvement in the fee equivalent SG&A percentage was due to our ability to leverage existing infrastructure costs.

LIQUIDITY AND CAPITAL RESOURCES

As a subsidiary of Daisytek, we have historically funded our business through intercompany borrowings from Daisytek. The net proceeds of this offering will be used to repay our intercompany borrowings from Daisytek. We currently believe that the net available proceeds from this offering, the effect of the restructuring of our IBM agreements discussed below and funds generated from operations will satisfy our working capital and capital expenditure requirements for the next twelve months. Because we will be restricted from borrowing from Daisytek following the spin-off, we also plan to seek our own credit facility.

Net cash provided by financing activities was \$8.5 million for the three months ended June 30, 1999, as compared to \$5.6 million for the three months ended June 30, 1998. Net cash provided by financing activities was \$27.6 million for fiscal 1999 and \$5.2 million for fiscal 1997. Net cash used in financing activities was \$4.1 million in fiscal 1998, representing a repayment to Daisytek. Additionally, during fiscal 1999, Daisytek made a capital contribution of \$0.5 million to its PFSweb Canadian subsidiary.

Cash flows used in operating activities totaled \$4.4 million during the three months ended June 30, 1999 as compared to \$1.3 million during the three months ended June 30, 1998. For the three months ended June 30, 1999, the net cash used in operating activities primarily reflected a reduction in accounts payable and accrued expenses of \$9.3 million and an increase in accounts receivable of \$0.6 million, which was partially offset by a reduction in inventory of \$5.3 million. For the three months ended June 30, 1998, the net cash used in operating activities was primarily due to an increase in inventory of \$0.7 million and accounts receivable of \$2.2 million, which were partially offset by a reduction in accounts payable and accrued expenses of \$1.5 million.

Net cash used in operating activities was \$12.1 million for fiscal 1999 and \$5.1 million for fiscal 1997. Net cash provided by operating activities was \$4.6 million for fiscal 1998. Working capital requirements increased in fiscal 1999 compared to fiscal 1998 primarily due to product revenue growth under our North American IBM master distributor agreements. We also entered into new master distributor agreements in December 1998 to provide services for IBM in Europe. Our North American revenue growth, as well as the new European contracts, resulted in significant increases in IBM contract related accounts receivable, inventory and accounts payable.

Working capital increased to \$20.8 million at June 30, 1999 from \$14.6 million at March 31, 1999, and from \$1.3 million at March 31, 1998. A significant portion of our working capital needs has historically been related to our master distributor agreements with IBM which required us to purchase and resell the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue), and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, as of October 1, 1999, we transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek will pay to us the net value of these assets and liabilities (approximately \$15.3 million as of June 30, 1999). From this amount, we will pay to Daisytek the remaining balance of the payable owed to Daisytek of approximately \$1.9 million as of June 30, 1999). As a result of these transactions, our historical working capital requirements may not be indicative of our future needs.

Our principal use of funds for investing activities was capital expenditures of \$2.1 million for the first three months of fiscal 2000 as compared to \$0.3 million for the first three months of fiscal 1999. Capital expenditures were \$2.7 million for fiscal 1999, \$0.3 million for fiscal 1998 and \$0.1 million for fiscal 1997. In addition, we have entered into a long-term contractual agreement with one of our clients pursuant to which, as part of the services that we provide, we finance certain of the client's inventory. This amount was \$12.2 million at June 30, 1999 and \$12.1 million at March 31, 1999 (see Note 2 of Notes to Combined Financial Statements). Capital expenditures have consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of our facilities, both domestic and foreign. We expect to incur significant capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for fiscal 2000 will be approximately \$13.0 to \$15.0 million. This amount includes the transfer to us of certain assets from Daisytek for approximately \$6.0 million (\$5.7 million in cash and the assumption of \$0.3 million of capital lease obligations) plus the assumption of certain lease obligations. The increase in

anticipated capital expenditures over fiscal 1999 relates primarily to our asset purchase from Daisytek and capital expenditures applicable to our new Belgium distribution facility, combined with expansion of our U.S. sales and distribution facilities. Some of these expenditures may be financed through operating or capital leases.

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

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

YEAR 2000 ISSUE

We utilize a significant number of computer software programs and information systems in our operations ("IT systems"). The mission-critical IT systems include our operating, Web hosting, accounting and telecommunications systems, such as IT software applications that allow us to maintain inventory and customer information and to communicate with our suppliers, clients and customers. We also make use of a variety of machinery and equipment in our business which are operated by or reliant upon non-information technology systems ("non-IT systems"), such as equipment or mechanical systems which contain embedded technology such as micro-controllers. To the extent that the source code of the software applications of these IT systems or the embedded technologies of these non-IT systems are unable to appropriately interpret and process the upcoming calendar year 2000, some level of modification, or possible replacement of such applications, would be necessary for the proper continuous performance of these systems. Without such modification or replacement, the normal course of our business could be disrupted or otherwise adversely impacted. This potential problem is commonly referred to as the year 2000 compliance issue ("Y2K").

In fiscal 1997, Daisytek began to address Y2K. Daisytek has formed a Y2K task force under its Chief Information Officer to coordinate and implement measures designed to prevent disruption in its business operations, including PFSweb, related to Y2K. Daisytek and PFSweb have successfully completed the remediation of their mission-critical IT applications software and are scheduled to complete remediation of their non-mission critical applications software by November 1999. Daisytek and PFSweb are assessing the effect of Y2K on their non-IT systems and intend to modify or replace non-IT systems as necessary to insure Y2K readiness by November 1999. We believe that, as of September 1, 1999, we have completed approximately 90% of the initiatives that we believe are necessary to fully address potential Y2K issues relating to our systems and operations. The projects comprising the remaining 10% of the initiatives are in process and expected to be completed by November 30, 1999. We believe that other IT projects not related to the Y2K issue

have not been delayed or negatively affected by the initiatives addressing the Y2K issue. The following table represents our schedule and status of our Y2K initiatives:

YEAR 2000 INITIATIVE -----	TIME FRAME -----	% COMPLETE -----
Initial IT systems identification and assessment.....	4/97 - 6/97	100%
Remediation and testing regarding core distribution systems.....	7/97 - 11/98	100%
Remediation and testing regarding purchased software systems.....	7/97 - 10/99	95%
Upgrades to telecommunications systems.....	9/97 - 4/99	100%
Desktop systems identification and remediation.....	7/97 - 11/99	90%
Remediation and testing for automated warehouse equipment systems.....	7/99 - 11/99	50%
Service provider assessment.....	1/99 - 8/99	100%

We have initiated communications with our clients to determine the extent to which our revenues may be vulnerable due to our clients' failure to re-mediate Y2K and not be able to conduct business with us. We are satisfied that our major clients are either appropriately prepared for the Y2K issue or our engagement with them will not be adversely affected by the Y2K issue. However, there can be no guarantee that the systems of our clients, will be timely or properly converted, or that a failure to convert by another company, or a conversion that is incompatible with our systems, would not have a material adverse effect on our business.

We conduct electronic data interchange (EDI) with some of our clients. Approximately half of the clients that we conduct EDI with have converted their EDI transaction sets to Y2K compliant versions. We believe that we will be able to conduct business with all of our partners whether they convert to Y2K compliant versions or not. We believe that the EDI transactions that we use with our clients are not significantly dependent on Y2K compliance and that we will be able to accept transactions as well as send transactions to clients whether they are compliant or not.

We utilize a significant amount of automation technology in our distribution centers. This year, we undertook an upgrade project to strengthen the reliability of certain components of the automation network in our Memphis distribution facility. We expect this upgrade to be completed by November 1999. This project will also make this network Y2K compliant. All of our other distribution automation has been certified as Y2K compliant by our service providers.

We, in conjunction with Daisytek, have initiated formal communications with our significant service providers to determine the extent to which we are vulnerable to those third parties' failure to remediate Y2K. However, there can be no guarantee that the systems of our service providers, on which our operations rely, will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with our operations, would not have a material adverse effect on our business. We are developing contingency plans to address the risks created by third parties' failure to re-mediate Y2K. These plans include procuring alternative sources of services such as telecommunications and transportation when we are able to conclude that an existing supplier of services will not be Y2K ready. We are scheduled to complete these contingency plans by November 1999.

The expenses incurred by Daisytek and its subsidiaries (including PFSweb) related to Y2K was approximately \$0.5 million during fiscal year 1999 and \$0.1 million during the three months ended June 30, 1999. In total, Daisytek's assessment and remediation of Y2K has a budget of approximately \$0.8 million, which includes both external costs, such as outside consultants, software and hardware applications, as well as internal costs, primarily payroll related, which are not reported separately.

There can be no assurance that Y2K remediation by PFSweb, in conjunction with Daisytek, or third parties will be properly and timely completed and failure to do so could have a material adverse effect on PFSweb's financial condition. We cannot predict the actual effects of Y2K, which depend on numerous uncertainties, such as whether major third parties address this issue properly and timely and whether broad-based or systemic economic failures may occur. We are currently

unaware of any events, trends, or conditions regarding this issue that may have a material effect on our results of operations, liquidity, and financial position. If Y2K is not resolved by January 1, 2000, our results of operations or financial condition could be materially adversely affected.

INVENTORY MANAGEMENT

Prior to October 1, 1999, our agreements with IBM were structured as master distributor agreements. The transaction management services we provided for IBM under these agreements included purchasing and reselling IBM product inventory to IBM customers. As of October 1, 1999, we have restructured our agreements with IBM so that we will no longer be purchasing or reselling the IBM product inventory. In addition, as of October 1, 1999, we have transferred to Daisytek the IBM-related customer accounts receivables, inventory and accounts payable.

SEASONALITY

The seasonality of our business is dependent upon the seasonality of our clients' business and their sale of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that as our business grows with consumer product clients, our business activity will be more significant in the quarter ended December 31.

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

INFLATION

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are subject to market risk associated with changes in interest rates and foreign currency exchange rates. Interest rate exposure is primarily related to our payable to Daisytek, which amounted to \$37.3 million at June 30, 1999. Our effective rate is equal to Daisytek's effective rate on its revolving lines of credit. The interest rates on these revolving lines of credit float with the market. A 50 basis point movement in interest rates would result in an approximately \$187,000 annualized increase or decrease in interest expense based on the outstanding balance of our payable to Daisytek at June 30, 1999. A portion of the net proceeds from this offering will be used to repay our payable due to Daisytek. Following our spin-off from Daisytek, we may manage the

exposure to interest rate risk through the use of derivative instruments designed to manage risk and minimize interest expense.

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

Currently, our foreign currency exchange rate risk is primarily limited to Canadian dollars. In the future, we believe our foreign currency exchange risk will also include other currencies applicable to certain of our international operations, including the Euro. In order to mitigate foreign currency rate risk, we will consider entering into forward currency exchange contracts to hedge our net investment and long-term intercompany payable balances.

BUSINESS

PFSweb is an international provider of transaction management services to both traditional and e-commerce companies. Our integrated solutions enable our clients to focus on their core business, products and services instead of making substantial investments in necessary transaction management infrastructure. We offer a comprehensive suite of services such as:

- order management, including Internet shopping cart and on-line order management;
- customer care services, including Web-enabled customer care centers integrating voice, e-mail, data and chat communications;
- billing services, including secure on-line credit card processing, invoicing, credit management and collection;
- information management, including real-time data interfaces, data exchange services and data mining; and
- distribution services, including inventory management, product warehousing, order picking and packing, transportation management and product return administration.

We enable our clients to implement their e-commerce strategies and introduce new products and business programs by providing a complete transaction management infrastructure, which is seamlessly integrated with our clients' systems and transparent to our clients' customers. Our ability to integrate a broad range of services makes it easier for our clients to outsource these functions to us and provides a faster time to market for their e-commerce business.

INDUSTRY OVERVIEW

Businesses today operate in an environment of rapid technological advancements, increasing competition and continuous pressure to improve operating efficiency. In response to these developments, two significant trends have emerged. The first is the accelerating use of the Internet to conduct e-commerce in both business-to-business and business-to-consumer applications. The second is the strategic decision of a growing number of companies, in a variety of industries, to outsource one or more business functions that are not within their core business competencies.

E-COMMERCE TREND

As the Internet has become an increasingly important communications medium, businesses and consumers alike have begun to use the Internet to buy and sell goods and services. According to International Data Corporation, or IDC, the number of users who make purchases over the Web will jump from nearly 31 million in 1998 to more than 182 million in 2003 and the amount of worldwide business-to-business and business-to-consumer commerce conducted over the Web will increase from approximately \$50 billion in 1998 to approximately \$1.3 trillion in 2003.

For the manufacturer, e-commerce creates multiple opportunities. The first is the opportunity to sell directly to the end-user customer, bypassing the traditional model of selling to wholesalers and distributors who then resell to mass merchants and other retailers. By selling directly to the end-user customer, the manufacturer can retain a portion of its product revenue which otherwise would have been paid to middlemen in the traditional distribution channel. Direct sales can also provide the manufacturer with valuable end-user customer information, including buying patterns, feature and function preferences and customer support requirements. This information can be used by the manufacturer to design better products, tailor production schedules to meet projected demand and improve overall customer satisfaction. Another opportunity is to use e-commerce to facilitate business-to-business transactions and improve operating efficiencies. Business-to-business e-commerce has the potential to significantly reduce time consuming paperwork and manual procedures, which can eliminate errors and reduce investments in working capital.

For the traditional retailer, e-commerce offers the opportunity to attract new customers and introduce new merchandise while avoiding substantial investment in physical retail locations. At the same time, consumer preferences and customer data can be compiled and analyzed to spot trends and demographic shifts.

The development of e-commerce is also giving rise to the "virtual company", a business model which focuses its energies entirely on creative design and sales and marketing by contracting out all other necessary business functions to outsiders. The benefits of e-commerce are leading to rapid growth in the number of Internet commerce sites as well as the rapid development and deployment of new technologies.

To succeed on-line, companies need an array of capabilities to support their on-line business. Designing an attractive Web page is only the beginning. In order to retain and satisfy their on-line customers, businesses must be able to:

- accept and process customer orders 24 hours a day, seven days a week;
- provide a rapidly scalable and flexible infrastructure;
- administer, on a secure basis, credit card payments and collections;
- calculate applicable sales tax for numerous taxing authorities and various product types;
- quickly and courteously respond to customer inquiries by e-mail, phone or fax;
- pick, pack and ship customer orders promptly and accurately; and
- process product returns and customer refunds.

Traditional manufacturers and retailers entering the e-commerce arena must be able to satisfy the expanding needs of on-line customers, which differ from their traditional commerce customers. The efficiency and quality of the on-line shopping experience from accessing product information, ordering and paying for the product to receiving the product and, if necessary, returning the product, are critical elements in successfully implementing e-commerce initiatives.

These challenges are particularly difficult for the traditional manufacturer whose distribution infrastructure is designed for large pallet sized orders to regional retailer distribution centers, and is not generally equipped to handle high-volume package distribution to individual customers. Similarly, retailers must ensure that their electronic shopping customer is not disappointed by experiencing product distribution problems and delays. Virtual companies, as well, are dependent upon an efficient order processing and distribution system to deliver their products to customers.

OUTSOURCING TREND

In response to growing competitive pressures and the rate of technological innovations, many companies are focusing their critical resources on the core competencies of their business. This focus typically results in these companies turning to outsourcing for business functions that are not core competencies. Outsourcing provides many key benefits, including the ability to:

- capitalize on skills, expertise and technology infrastructure that would otherwise be unavailable or expensive given the scale of the business;
- reduce capital and personnel investments and convert fixed investments to variable costs;
- increase flexibility to meet changing business conditions and demand for products and services;
- enhance customer satisfaction and gain competitive advantage;
- improve operating performance and efficiency; and
- rapidly enter new business markets or geographic areas

As a result, the market for outsourcing services has experienced significant growth. IDC expects that worldwide spending on outsourcing services will grow from nearly \$100 billion in 1998 to more than \$151 billion in 2003.

Typically, outsourcing service providers are focused on a single function, such as information technology, call center management, credit card processing, warehousing or package delivery. This focus creates several challenges for companies looking to outsource more than one of these functions, including the need to manage multiple outsourcing service providers, sharing information with service providers and integrating that information into their internal systems. Additionally, the delivery of these multiple services must be transparent to the customer and enable the client to maintain brand recognition and customer loyalty.

THE PFSWEB SOLUTION

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

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

Improve the Customer Experience. We enable our clients to provide their customers with a positive buying experience thereby maintaining and promoting brand loyalty. Through our use of advanced technology, we can respond directly to customer inquiries by e-mail, voice or data communication and assist them with on-line ordering and product information. We believe we offer our clients a "world class" level of service, including 24 hour, seven day a week customer care service centers and nearly 100% order accuracy.

Minimize Investment and Improve Operating Efficiencies. We provide our clients with access to a wide array of services that cover a broad spectrum of e-commerce transaction management issues, eliminating their need to expend management time and resources to coordinate these services from different providers. By utilizing our services, our clients can capitalize on our economies of scale and expertise to grow their e-commerce business without incurring the substantial fixed costs necessary to create and maintain their own transaction management infrastructure. Our clients also have the flexibility to purchase any or all of our offered services according to their transaction volume and existing transaction management infrastructure so that they do not have to invest scarce capital resources as their business grows.

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

THE PFSWEB STRATEGY

Our objective is to grow rapidly by being an international provider of business-to-business and business-to-consumer transaction management services for both traditional and e-commerce businesses. The key elements of our business strategy are to:

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

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

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

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

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

PFSWEB SERVICES

We offer a wide range of transaction management services that are tailored to our clients' specific needs to enable them to quickly and efficiently implement their e-commerce and traditional business initiatives. Our services include:

Order Management. Our order management services include handling the complete shopping cart check-out process for Internet orders as well as phone, fax, e-mail, mail and other order receipt methods. Our systems provide the ability for both our clients and their customers to track the status of orders at any time. Our services are transparent to our clients' customers and are seamlessly integrated with our clients' internal systems and Web sites. By synchronizing our order management technology with our clients' internal systems and Web sites, we can capture and provide critical customer information, including:

- statistical measurements critical to creating a quality customer experience, including real-time order status, order exceptions, back order tracking, the ratio of customer inquiries to purchases, average order sizes and order response time;
- detailed marketing information about what was sold and to whom it was sold, including by location and preference; and

- Web traffic reporting of the number of visits ("hits") received, what areas of the Web site were visited, and what customers asked for on the Web site.

Customer Care Services. Our customer care services utilize Web-enabled features that integrate voice, e-mail, data and chat communications to respond to and handle customer inquiries. Our customer care representatives answer questions in our clients' name regarding orders, shipping, billing, returns and product information as well as a variety of other questions. Our customer care center automatically identifies each customer request and routes it to the available customer care representative who is specially trained in the client's business and products. Our customer care centers are designed so that our customer care representatives can handle many different clients and products, thereby creating economy of scale benefits for our clients. Our advanced technology also enables our representatives to inform customers of other products and sales opportunities for our clients.

Billing Services. We offer secure credit card processing for our clients, both directly on-line from their Web site as well as through our customer care center. Our credit card processing services offer real-time confirmation of credit card authorization while the customer is in the shopping-cart checkout process or talking to a customer care representative. We are able to calculate sales tax, if applicable, for numerous taxing authorities and on a variety of products. We provide customized computer generated invoices in our clients' names so that our services remain transparent to the customer. We also assist our clients in business-to-business accounts receivable management and collection in accordance with their procedures and guidelines.

Information Management. We have the ability to communicate with and transfer information to and from our clients through a wide variety of technologies, including real-time data interfaces, file transferring and electronic data interchange. Our systems are designed to capture, store and electronically forward to our clients critical information regarding customer inquiries and orders, product shipments, inventory levels, product returns and other information. We maintain for our clients detailed product master files that can be seamlessly integrated with their Web sites. Our systems are capable of providing our clients with customer and order information for use in analyzing sales and marketing trends and introducing new products. We also offer customized reports or data analyses based upon specific client needs to assist them in their budgeting and business decision process.

Distribution Services. An integral part of our transaction management services is the warehousing and distribution of inventory owned by our clients. We currently have over one million square feet of warehouse space to store and process our clients' inventory. We receive client inventory in our distribution center, verify shipment accuracy, unpack, inspect for damage and generally stock for sale the same day. On behalf of our clients, we pick, pack and ship their customer orders and can provide customized packaging, inserts and promotional literature for distribution with customer orders. Based upon our clients' needs, we are able to take advantage of a variety of shipping and delivery options, including next day service. Our extensive use of advanced technology and equipment in our distribution centers enable us to generally maintain an order accuracy rate of nearly 100% and, similarly, ship nearly 100% of in-stock orders the same day. In addition, an increasingly important function that we provide for our clients is product return administration. We offer a wide array of product return services for our clients, including issuing return authorizations, receipt of product, crediting credit card accounts, and disposition of returned product.

CLIENTS AND MARKETING

Our target clients include traditional manufacturers of brand name products looking to quickly and efficiently implement e-commerce initiatives or introduce new products or programs, without the burden of modifying or expanding their order processing and distribution infrastructure. We also target retailers seeking to open Web sites to expand their sales without opening new brick and

mortar stores and distributors seeking to reduce costs. Our services are available for a variety of industries, including:

- MANUFACTURERS such as IBM (printer and media supplies), Emtec (formerly BASF Magnetics) (data media and audio visual products), Tektronix (printers and printer supplies), Thomson Consumer Electronics (televisions and consumer electronics), Hewlett-Packard (computer networking equipment) and Nokia (cell phone accessories);
- RETAILERS such as American Eagle Outfitters (fashion apparel) and Global Sports Interactive (a sporting goods distributor for SportsAuthority.com, AthletesFoot.com, MCSports.com, Sportchalet.com, Sportsandrec.com and other retailers);
- DISTRIBUTORS such as Daisytek (consumable computer supplies), ISA Ltd. (computer and office supplies in Western Europe); and
- INTERNET COMMERCE SITES such as RCA.com (television sets and consumer electronics), Lyrazone.com (MP3 players), NokiaUSA.com (cell phone accessories), BargainBid.com (on-line auction) and YardMart.com (lawn and garden products).

We reach these clients through a direct sales force, telemarketing, trade shows, trade journal advertising, our Web site and direct mail programs. We also pursue strategic marketing alliances with Web design firms and e-commerce consultants to provide referrals and customer leads.

Our direct sales force is comprised of dedicated sales professionals whose compensation is tied to their ability to expand our relationships with existing clients and attract new clients. We also employ highly trained implementation managers whose responsibilities include the oversight and supervision of client projects and maintaining high levels of client satisfaction.

All of our product revenue for fiscal 1999 was generated by sales of product purchased under master distributor agreements with IBM. On an historical basis, Daisytek accounted for 13% of our total revenues in fiscal 1999. On a supplemental pro forma basis, during the three months ended June 30, 1999, Daisytek accounted for approximately 67% of total service fee revenues, and Tektronix accounted for approximately 10%. As we develop new customer relationships, we expect the percent of business related to Daisytek to decline significantly.

TECHNOLOGY

We maintain advanced management information systems and have automated most key business functions using on-line, real time systems. These systems enable us to provide our clients with information concerning sales, inventory levels, customer payments and other operations that are essential for our clients to efficiently manage their electronic commerce business programs. Our systems are designed to scale rapidly to handle the transaction processing demands of our clients.

We employ technology from a selected group of partners. For example, we use IBM AS/400 and Netfinity servers to run both Web site functions as well as order management and distribution functions, and we use Lucent Technologies for telephone switch and call center management functions. We also use Lucent Technologies for our Web enabled customer care center to interact with customers with voice, e-mail or chat and to communicate with the customer by sharing Web pages between the customer and our customer service representative. Our sophisticated computer-telephony integration has been accomplished by combining systems software from IBM and Lucent Technologies together with our own application development. We use AT&T for our private enterprise network and long distance carrier. We use J.D. Edwards as the software provider for the primary applications that we use in our operational areas and financial areas. We use Rapistan/ Demag for our warehouse management, automated conveyor and "pick-to-light" (inventory retrieval) systems and Telxor for our warehouse radio frequency (RF) applications.

We have developed proprietary technology that is specifically targeted at quickly integrating and synchronizing our systems with those of our clients with a high degree of accuracy and

reliability. We can track information sent to us by the client as it moves through our systems in the same manner a package would be tracked by a carrier throughout the delivery process. Our systems enable us to trace at a detailed level what information was received, when it was received, any errors or special handling that had to take place to process it and what was sent back to the client. We have also developed proprietary electronic interfaces that we provide to the client or their selected Web developer to easily integrate their Web site with our systems. These tools allow for efficient customized integration with our client and powerful real-time Web site transaction processing. The implementation of these systems allows us to offer an advanced suite of electronic commerce tools to our clients so that we can communicate with their computer systems and automatically process, send and receive orders, customer data and other information.

We have also invested in advanced telecommunications, computer telephony, electronic mail and messaging, automated fax technology, barcode scanning, wireless technology, fiber optic network communications and automated inventory management systems. We have also developed and utilize telecommunications technology that provides for automatic customer call recognition and customer profile recall for inbound customer service representatives.

Our systems development team consists of over 35 information technology professionals whose primary responsibility is directed at implementing custom solutions for new clients and maintaining existing client relationships. Our development team can also produce proprietary systems infrastructure to expand our capabilities in circumstances where we cannot purchase standard solutions from commercial providers. We also utilize temporary resources when needed for additional capacity.

Our information technology operations and infrastructure are built on the premise of reliability and scalability. We maintain diesel generators and uninterruptable power supply equipment to provide constant availability to computer rooms, call centers and warehouses. Multiple Internet service providers and redundant Web servers provide for a high degree of availability to Web sites that interface with our systems. Capacity planning and upgrading is performed regularly to allow for quick implementation of new clients and avoid time-consuming infrastructure upgrades that could slow growth rates. We also have a disaster recovery plan for our information systems and maintain a "hot site" under contract with a major provider.

COMPETITION

Many companies offer, on an individual basis, one or more of the same services as we do, and many of our competitors have greater financial, distribution and marketing resources than we do. These competitors could potentially use their greater resources to expand their sales efforts, lower prices or increase their range of services to include all the services we offer. In many instances, our competition is the in-house operations of our clients themselves.

Although many of our competitors can offer one or more of our services, we believe our primary competitive advantage is our ability to offer a wide array of services that cover a broad spectrum of electronic commerce transaction management functions, including order processing and shipment, credit card payment and customer service, thereby eliminating any need for our clients to coordinate these services from different providers. We believe we are unique in offering our clients a "virtual infrastructure" to handle all of their order processing, customer care service, billing, information management and product warehousing and distribution needs.

We also compete on the basis of certain additional factors, including:

- operating performance and reliability;
- ease of implementation and integration; and
- price.

We believe that we presently compete favorably with respect to each of these factors. However, the market for our services is becoming more competitive and still evolving, and we may not be able to compete successfully against current and future competitors.

FACILITIES

In the U.S., we operate a nearly one million square foot central distribution complex in Memphis, Tennessee. This complex is located approximately four miles from the Memphis International Airport, where both Federal Express and United Parcel Service operate large hub facilities. This complex contains computerized sorting equipment, powered material handling equipment, scanning and bar-coding systems and automated conveyors, in-line scales and digital cameras to photograph shipment contents for automatic accuracy checking. Our Memphis facility was recently showcased as the Distribution Center of the Month by a leading trade journal for the distribution and material handling industry.

Our receiving and material handling system in our Memphis distribution complex includes several advanced technology enhancements, including radio frequency technology in product receiving processing to ensure accuracy, an automated package routing system and a "pick to light" paperless order picking system. Our advanced distribution systems provide us with the capability to currently warehouse an extensive number of stock keeping units (SKUs) for our clients ranging from high-end laser printers to wide-leg blue jeans, while at the same time retaining the ability to pick, pack and ship single SKUs to individual customers in fulfillment of customer orders.

We currently are operating a distribution center in Aachen, Germany, until we complete a new 150,000 square foot distribution center in Liege, Belgium. We currently expect this new facility to be operational prior to 1999 calendar year-end. This new facility will have many of the same advanced distribution systems and equipment as in our Memphis complex.

Our transitional agreement with Daisytek will provide for our use of its regional customer service, warehouse and distribution facilities in Toronto and Vancouver, Canada; Mexico City, Mexico; Sydney, Australia; and Singapore. We presently plan to establish our own customer service and warehouse and distribution facility in Toronto.

We operate customer service centers in Memphis, Tennessee; Plano, Texas; Toronto, Canada; and Maastricht, The Netherlands. Our call center technology permits the automatic routing of calls to available customer service representatives in several of our call centers.

All of our facilities are leased and the material lease agreements contain one or more renewal options.

PERSONNEL AND TRAINING

Our success in recruiting, hiring and training large numbers of skilled employees and obtaining large numbers of hourly employees during peak periods for distribution and call center operations is critical to our ability to provide high quality distribution and support services. Call center representatives and distribution personnel receive feedback on their performance on a regular basis and, as appropriate, are recognized for superior performance or given additional training. Generally, our clients provide specific product training for our customer service representatives and, in certain instances, on-site client personnel to provide specific technical support. To maintain good employee relations and to minimize employee turnover, we offer competitive pay, hire primarily full-time employees who are eligible to receive a full range of employee benefits, and provide employees with clear, visible career paths.

As of August 31, 1999, we had 314 employees. We currently anticipate that, upon completion of this offering, approximately Daisytek employees will be transferred to us. We are not a party to any collective bargaining agreements, and we have never suffered an interruption of business as a result of a labor dispute. We consider our relationship with our employees to be good.

REGULATION

Our business may be affected by current and future governmental regulation. For example, the Internet Tax Freedom Act bars state and local governments from imposing taxes on Internet access or that would subject buyers and sellers of electronic commerce to taxation in multiple states. This act is in effect through October 2000. When the act expires or if the act is repealed, Internet access and sales across the Internet may be subject to additional taxation by state and local governments, thereby discouraging purchases over the Internet and adversely affecting the market for our services.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

Set forth below are the names and positions of our executive officers and directors. We currently expect to appoint additional directors following the spin-off.

NAME ----	AGE ---	POSITION -----
Mark C. Layton.....	39	Chairman of the Board, President and Chief Executive Officer
Christopher Yates.....	44	Executive Vice President, Chief Sales and Marketing Officer and Director
Steven S. Graham.....	47	Executive Vice President, Chief Information Officer
Thomas J. Madden.....	38	Executive Vice President, Treasurer, Chief Financial and Accounting Officer
C. Clifford Defee.....	40	Vice President -- Operations and Client Solutions, Chief Operating Officer
Martin L. Anderson.....	34	Vice President -- Customer Satisfaction
Lindsley D. Medlin Jr.	35	Vice President, Managing Director (PFS Europe)
Scott R. Talley.....	35	Vice President -- International Distribution
Harvey H. Achatz.....	58	Vice President -- Administration and Secretary
James R. Powell.....	38	Director
Timothy M. Murray.....	47	Director
Peter P. J. Vikanis.....	48	Director
James F. Reilly.....	40	Director

Mark C. Layton, has served as Chairman of the Board, President and Chief Executive Officer of PFSweb since its inception. Mr. Layton also serves as President, Chief Executive Officer and Chief Operating Officer of Daisytek, positions he has held since 1997, and as a Director, a position he has held since 1988. Mr. Layton was recently appointed as Chairman of the Board of Daisytek. Mr. Layton served as President, Chief Operating Officer and Chief Financial Officer of Daisytek from 1993 to April 1997, as Executive Vice President from 1990 to 1993 and as Vice President -- Operations from 1988 to 1990. Prior to joining Daisytek, Mr. Layton served as a management consultant with Arthur Andersen & Co., S.C. for six years through 1988 specializing in wholesale and retail distribution and technology. Mr. Layton also serves as a Director of ISA International plc ("ISA"), a distributor of computer supplies in Western Europe, and uBid, Inc., an Internet auction company. Mr. Layton is the author of .coms or .bombs...Strategies for Profit in E-Business and maintains a Web site at www.profits-in-e-business.com. Neither Mr. Layton's book nor his Web site is part of this prospectus, and the information contained in them is not incorporated into this prospectus.

Christopher Yates has served as Executive Vice President, Chief Sales and Marketing Officer and Director of PFSweb since its inception. Mr. Yates also serves as Senior Vice President -- Business Development of Daisytek, a position he has held since 1996, with primary responsibility for PFS. Mr. Yates also serves as a Director of Daisytek, a position he has held since 1995. Mr. Yates served as Vice President -- Business Development of Daisytek from November 1995 to February 1996, as Vice President -- Marketing from January 1994 to November 1995, as Vice President -- Sales from 1988 to 1994 and in various other sales capacities for Daisytek since 1982.

Steven S. Graham has served as Executive Vice President and Chief Information Officer of PFSweb since its inception. Mr. Graham also serves as Senior Vice President of Information Technologies and Chief Information Officer of Daisytek, a position he has held since 1996. Prior to

joining Daisytek, Mr. Graham was employed by Ingram Micro, a major microcomputer distributor. Mr. Graham has over 26 years of experience in the information-technology field.

Thomas J. Madden has served as Executive Vice President, Treasurer, Chief Financial Officer and Chief Accounting Officer of PFSweb since its inception. Mr. Madden also serves as Chief Financial Officer of Daisytek, a position he has held since July 1997 and serves as Vice President -- Finance, Treasurer and as Chief Accounting Officer of Daisytek, positions he has held since November 1994, March 1994 and 1992, respectively. From 1992 to 1994 he also served as Controller of Daisytek. From 1983 to 1992, Mr. Madden served in various capacities with Arthur Andersen & Co., S.C., including financial consulting and audit manager.

C. Clifford Defee has served as Vice President -- Operations and Client Solutions and Chief Operating Officer of PFSweb since its inception. Mr. Defee also serves as Vice President -- Operations of PFS, a position he has held since January 1997. From 1984 to 1997, Mr. Defee served as a management consultant with Andersen Consulting, LLP specializing in retail distribution.

Martin L. Anderson has served as Vice President -- Customer Satisfaction of PFSweb since its inception. Mr. Anderson also serves as Vice President -- Call Center Operations of PFS, a position he has held since March 1998, and has served in various other capacities for Daisytek since 1990.

Lindsley D. Medlin Jr. has served as Vice President and Managing Director (PFS Europe) of PFSweb since its inception. Mr. Medlin also serves as Director and Managing Director of PFS Europe, a position he has held since December 1998, and has served in various other capacities for Daisytek since 1988.

Scott R. Talley has served as Vice President -- International Distribution for PFSweb since its inception. Mr. Talley also serves as Vice President -- Distribution of PFS, a position he has held since April 1999, and has served in various other capacities for Daisytek since 1991.

Harvey H. Achatz has served as Vice President -- Administration and Secretary of PFSweb since its inception. Mr. Achatz also serves as Vice President -- Administration and Secretary of Daisytek, positions he has held since 1993 and 1984, respectively, and served as Vice President -- Finance from 1985 to 1993, as Controller from 1981 to 1985 and as a Director from 1984 to 1990.

James R. Powell has served as a Director of PFSweb since its inception. Mr. Powell also serves as a Director and Senior Vice President -- Sales and Marketing of Daisytek, a position he has held since 1996. Mr. Powell has served as Vice President -- Sales of Daisytek from 1992 to 1996 and in various other sales capacities from 1988 to 1992. Prior to joining Daisytek, Mr. Powell was engaged in various sales and marketing activities. Mr. Powell is a non-employee director.

Timothy M. Murray has served as a Director of PFSweb since its inception. Mr. Murray also serves as a Director of Daisytek, a position he has held since 1991. Mr. Murray is a Principal of William Blair & Company, L.L.C., an investment banking firm he joined in 1979. Mr. Murray is also a director of MedE America Corporation, a healthcare transaction processor, and several privately held corporations. Mr. Murray is a non-employee Director.

Peter P. J. Vikanis has served as a Director of PFSweb since its inception. Mr. Vikanis also serves as a Director of Daisytek, a position he has held since 1996. Mr. Vikanis served as Chief Operating Officer of ISA from 1991 to 1995, as a director of ISA from 1979 to 1995, and also served in various management capacities at ISA from 1971 to 1991. Mr. Vikanis presently serves as a non-Executive Director of ISA. Mr. Vikanis is a non-employee Director.

James F. Reilly has served as a Director of PFSweb since its inception. Mr. Reilly also serves as a Director of Daisytek, a position he has held since October 1998. Mr. Reilly is a Managing Director in the Technology Group of Warburg Dillon Read, the global investment banking division of UBS AG. Mr. Reilly has been with Warburg Dillon Read or one of its predecessor companies since 1983 and specializes in corporate finance advisory work for a broad range of technology companies, including distribution companies. Mr. Reilly is a non-employee Director.

We currently expect that, upon completion of the spin-off, our executive officers will no longer serve as officers of Daisytek, although we currently expect that Messrs. Layton and Yates will remain as directors of Daisytek.

BOARD STRUCTURE AND COMMITTEES

Our Board is divided into three classes serving staggered terms. After an initial transition period, directors in each class will be elected to serve for three-year terms and until their successors are elected and qualified. Each year, the directors of one class will stand for election as their terms of office expire. Presently, Messrs. Reilly and Vikanis are designated as Class I directors, with their terms of office expiring in 2000; Messrs. Powell and Yates are designated as Class II directors, with their terms of office expiring in 2001; and Messrs. Murray and Layton are designated as Class III directors, with their terms of office expiring in 2002. We presently expect that, prior to or following the spin-off, our Board may appoint as Class II or Class III directors one or more additional outside directors who are not employed by Daisytek.

We have two standing committees: an Audit Committee and a Compensation Committee. Messrs. Murray and Vikanis have been appointed as the initial members of the Audit Committee, and Messrs. Reilly and Murray have been appointed as the initial members of the Compensation Committee. As additional persons join our Board following the spin-off, it is possible that membership on some of these committees may be modified.

The Audit Committee will select the independent public accountants to audit our annual financial statements and will establish the scope and oversee the annual audit. The Compensation Committee will determine the compensation for employee directors and, after receiving and considering the recommendation of our Chief Executive Officer and the President, all officers of the company and any other employee that the Compensation Committee may designate from time to time and will approve and administer employee stock option and incentive plans. Our Board may establish other committees from time to time to facilitate the management of the business and affairs of our company.

NON-EMPLOYEE DIRECTOR COMPENSATION; STOCK OPTION AND RETAINER PLAN

Each non-employee director receives an annual director's fee of \$20,000 for each year in which he or she serves as a director. Non-employee directors do not receive additional Board or Committee meeting fees.

We have also adopted a Non-Employee Director Stock Option and Retainer Plan to help attract and retain non-employee directors. There are 250,000 shares of our common stock reserved for issuance under the Plan. The Plan is administered by our Board of Directors or a committee appointed by the Board. Under the Plan, following the completion of the spin-off and subject to certain conditions, each non-employee director may elect to receive payment of his or her director's fees in shares of common stock in lieu of cash. In addition, under the Plan, each non-employee director received, as of the date of the adoption of the Plan, an option to purchase 35,000 shares of common stock with an exercise price of \$10.45 per share. The Plan also provides for the future issuance to each non-employee director of options to purchase 10,000 shares of common stock as of the date of each annual meeting of stockholders.

All options issued under the Plan are non-qualified options for federal income tax purposes and have an exercise price equal to the fair market value of a share of common stock as of the date of grant. All options have a ten year term and are subject to a one year vesting schedule, except that any options issued prior to the effective date of the spin-off, including the initial option grant, have no vesting for three years, subject to acceleration, in part, upon completion of the spin-off. Generally, unless the Plan administrator otherwise provides, options are non-transferable other than by will or the laws of descent and distribution. At the time of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate

structure or capitalization affecting our common stock, the Plan administrator will make appropriate adjustments to the exercise price, number and kind of shares to be issued under the Plan and any outstanding options. Unless terminated earlier, the Plan will terminate ten years from its adoption, and no stock options will be granted after the Plan terminates. Our board of directors has the authority to amend, modify, suspend or terminate the Plan at any time.

Directors who are also employees of PFSweb receive no remuneration for serving as directors or committee members.

STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

All of our stock is currently owned by Daisytek, and, thus, none of our officers or directors own any of our common stock. To the extent any of our directors and officers own shares of Daisytek common stock at the time of the spin-off, they will participate in the spin-off on the same terms as other holders of Daisytek common stock. We have adopted the stock option plans described in this prospectus and certain of our officers and directors hold options to purchase shares of our common stock.

The following table sets forth the number of shares of Daisytek common stock beneficially owned on September 15, 1999 by each director and executive officer and all directors and executive officers of PFSweb as a group. Applicable percentage ownership is based on 17,171,452 shares of Daisytek common stock outstanding on September 15, 1999.

Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of September 15, 1999 are deemed outstanding. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. Except as otherwise noted, the individual director or executive officer or their family members had sole voting and investment power with respect to such securities.

NAME ----	NUMBER OF SHARES -----	PERCENT -----
Mark C. Layton(1).....	333,038	1.9%
Christopher Yates(2).....	89,951	*
Steven S. Graham(3).....	38,445	*
Thomas J. Madden(4).....	88,154	*
C. Clifford Defee(5).....	6,121	*
James R. Powell(6).....	37,620	*
Timothy M. Murray(7).....	83,401	*
Peter P.J. Vikanis(8).....	9,347	*
James F. Reilly.....	7,111	*
Martin L. Anderson(9).....	17,130	*
Lindsley D. Medlin Jr.(10).....	36,700	*
Scott R. Talley(11).....	9,163	*
Harvey H. Achatz(12).....	64,427	*
	-----	-----
All directors and executive officers as a group (13 persons)(13).....	820,608	4.8%

* Represents less than 1%

- (1) Includes outstanding options to purchase 116,864 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 465,686 shares of common stock, which are not vested or exercisable.
- (2) Includes outstanding options to purchase 88,951 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 258,093 shares of common stock, which are not vested or exercisable.
- (3) Includes outstanding options to purchase 35,445 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 210,857 shares of common stock, which are not vested or exercisable.
- (4) Includes outstanding options to purchase 64,978 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 210,758 shares of common stock, which are not vested or exercisable.
- (5) Includes outstanding options to purchase 6,121 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 111,118 shares of common stock, which are not vested or exercisable.
- (6) Includes outstanding options to purchase 37,620 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 362,213 shares of common stock, which are not vested or exercisable.
- (7) Includes outstanding options to purchase 2,690 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 4,788 shares of common stock, which are not vested or exercisable.
- (8) Includes outstanding options to purchase 2,690 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 4,788 shares of common stock, which are not vested or exercisable.
- (9) Includes outstanding options to purchase 16,380 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 87,267 shares of common stock, which are not vested or exercisable.
- (10) Includes outstanding options to purchase 27,887 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 82,663 shares of common stock, which are not vested or exercisable.
- (11) Includes outstanding options to purchase 9,163 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 73,125 shares of common stock, which are not vested or exercisable.
- (12) Includes outstanding options to purchase 8,649 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 11,215 shares of common stock, which are not vested or exercisable.
- (13) Includes outstanding options to purchase an aggregate of 417,438 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase an aggregate of 1,882,571 shares of common stock, which are not vested or exercisable.

EXECUTIVE COMPENSATION

The following table sets forth certain compensation information for the chief executive officer and the four other executive officers of PFSweb who, based on salary and bonus compensation from Daisytek and its subsidiaries, were the most highly compensated officers of PFSweb for fiscal year 1999. All information set forth in this table reflects compensation earned by such individuals for services with Daisytek and its subsidiaries for fiscal 1999.

SUMMARY COMPENSATION TABLE

NAME AND POSITION WITH DAISYTEK	ANNUAL COMPENSATION			LONG-TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION(1)
	YEAR	SALARY	BONUS	NUMBER OF SECURITIES UNDERLYING OPTIONS	
Mark C. Layton.....	1999	\$337,819	\$175,160	412,080	\$18,063
President, Chief Executive and Operating Officer	1998	319,599	269,196	122,836	9,731
	1997	299,013	222,900	69,832	8,458
Christopher Yates.....	1999	263,361	57,803	222,026	9,534
Senior Vice President -- Business Development	1998	248,454	88,835	84,742	6,088
	1997	232,200	73,557	41,120	5,004
Steven S. Graham.....	1999	200,950	57,803	186,302	9,489
Senior Vice President -- Information Technologies and Chief Information Officer	1998	189,491	88,835	60,000	37,829
	1997	78,268	32,439	50,000	5,610
Thomas J. Madden.....	1999	124,000	35,032	185,980	5,638
Vice President -- Finance, Chief Financial and Accounting Officer	1998	124,000	53,839	60,350	5,569
	1997	118,000	22,900	33,174	4,618
C. Clifford Defee.....	1999	175,926	--	110,139	344
Vice President -- PFS	1998	146,091	--	8,000	165

(1) Represents compensation in respect of one or more of the following: personal use of automobiles; life insurance premiums paid for the benefit of the named executive officer; tax return preparation services; personal travel expenses and relocation costs.

GRANT OF DAISYTEK STOCK OPTIONS IN FISCAL 1999

The following table sets forth information with respect to grants of stock options to purchase shares of Daisytek common stock during fiscal 1999 to the named executive officers reflected in the Summary Compensation Table. Unless exercised prior thereto, the options to purchase Daisytek common stock reflected below will be replaced with options to purchase PFSweb common stock in connection with the completion of the spin-off. See "Substitute Stock Options."

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS(2)	
	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE(1)	5%	10%
Mark C. Layton.....	52,080	1.9%	\$22.88	6-18-08	\$ 749,221	\$1,898,673
	360,000	13.0	12.88	12-15-08	2,914,927	7,386,996
Christopher Yates....	42,026	1.5	22.88	6-18-08	604,585	1,532,136
	180,000	6.5	12.88	12-15-08	1,457,463	3,693,498
Steven S. Graham....	36,302	1.3	22.88	6-18-08	522,239	1,323,457
	150,000	5.4	12.88	12-15-08	1,214,553	3,077,915
Thomas J. Madden....	35,980	1.3	22.88	6-18-08	517,607	1,311,718
	150,000	5.4	12.88	12-15-08	1,214,553	3,077,915
C. Clifford Defee....	20,139	0.7	22.88	6-18-08	289,719	734,205
	90,000	3.2	12.88	12-15-08	728,732	1,846,749

(1) Options expiring in June 2008 are subject to a three year cumulative vesting and options expiring in December 2008 are subject to a four or five year cumulative vesting schedule.

(2) These are hypothetical values using assumed annual rates of stock price appreciation as prescribed by the rules of the SEC.

EXERCISES OF DAISYTEK STOCK OPTIONS AND FISCAL YEAR-END OPTION VALUES

The following table shows aggregate exercises of options to purchase Daisytek common stock in fiscal 1999 by the executive officers named in the Summary Compensation Table above. Unless exercised prior thereto, the unexercised options reflected below will be replaced with options to purchase PFSweb common stock in connection with the completion of the spin-off. See "Substitute Stock Options."

NAME	NUMBER OF SHARES ACQUIRED ON EXERCISE	VALUE RECEIVED(2)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Mark C. Layton.....	--	--	66,060	516,490	\$403,491	\$1,780,691
Christopher Yates.....	--	--	52,987	294,057	329,330	972,128
Steven S. Graham.....	--	--	9,000	237,302	37,125	772,875
Thomas J. Madden.....	20,726	\$440,285	38,458	237,278	239,506	774,104
C. Clifford Defee.....	900	11,700	300	116,939	1,238	365,550

(1) Calculated by determining the difference between \$16 5/8 (the last sale price of the Daisytek common stock on March 31, 1999 as reported by the Nasdaq National Market) and the exercise price of the shares of Daisytek common stock underlying the options.

- (2) Calculated by determining the difference between the last sale price of the Daisytek common stock on the date of exercise as reported by the Nasdaq National Market and the exercise price.

PFSWEB STOCK OPTION AND INCENTIVE PLANS

We have adopted, with the approval of Daisytek in its capacity as the sole stockholder of PFSweb, the PFSweb Employee Stock Option Plan and the PFSweb Annual Incentive Plan. These plans will be administered by the Compensation Committee.

Employee Stock Option Plan

The Employee Stock Option Plan provides for the grant of stock options to all officers and full-time employees of PFSweb who are eligible to participate. The purpose of the Plan is to further our growth, development and financial success by providing incentives to our officers and employees by assisting them to become owners of our common stock. An aggregate of 5,750,000 shares of common stock are reserved for issuance to employees under the Plan, which includes substitute stock options which will be issued in replacement of outstanding Daisytek stock options. See "Substitute Stock Options."

The Plan is administered by a committee of the Board of Directors (the "Stock Option Committee"). The Stock Option Committee consists of two or more Directors, appointed by and holding office at the pleasure of the Board of Directors. The Board may, and currently intends, to limit the members of the Stock Option Committee to Directors who are both "non-employee directors", as defined in Rule 16b-3 under the Securities Exchange Act of 1934, and "outside directors", as defined in Section 162(m) of the Internal Revenue Code. The Stock Option Committee has complete authority and discretion to determine from among eligible persons those to whom options will be granted and the number and terms of such options. The Board has authorized the Compensation Committee to serve as the Stock Option Committee.

The Plan provides for the granting of both incentive stock options and non-qualified stock options under the Code. The exercise price of options granted under the Plan may not be less than 100% of the fair market value on the date of the grant, except that incentive stock options granted to individuals owning more than ten percent of the total combined voting power of PFSweb may not have an exercise price less than 110% of the fair market value on the date of grant. The Plan gives the Stock Option Committee complete discretion as to the times at which the options are exercisable, provided that such options must expire no later than ten years from the date of grant.

Options are exercisable at such times and in such installments (which may be cumulative) as the Stock Option Committee may provide in the terms of each individual option. Generally, options granted under the Plan are expected to be subject to multi-year cumulative vesting schedules as shall be determined by the Stock Option Committee, in its discretion.

The Plan permits the Stock Option Committee to authorize and approve the issuance of immediately exercisable options to purchase restricted stock subject to restrictions on transfer and forfeiture, and, subject to such terms and conditions as the Stock Option Committee shall determine in its sole discretion, the acceptance of promissory notes and/or shares of our common stock (whether issued upon exercise of outstanding options or otherwise) in payment of the option exercise price (or applicable taxes arising in connection therewith). Generally, options issued under the Plan are non-transferable other than by will or the laws of descent and distribution, except that the Stock Option Committee may approve the transferability of non-qualified options to family members and family trusts of option holders or other transferees.

At the time of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate structure or capitalization affecting our common stock, the Stock Option Committee will make appropriate adjustments to the exercise price, number and kind

of shares to be issued under the Plan and any outstanding options. Unless terminated earlier, the Plan will terminate ten years from its adoption, and no stock options will be granted after the Plan terminates. Our board of directors or the Stock Option Committee has the authority to amend, modify, suspend or terminate the Plan at any time, subject to any requirement of stockholder approval under the Code or other applicable law.

There are currently an aggregate of 1,201,500 options outstanding under the Employee Stock Option Plan that are held by an aggregate of 193 officers and employees. All of these options have a weighted average exercise price of \$10.52 per share and are subject to a three year vesting schedule, under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off. The following table sets forth information with respect to grants of stock options under the Employee Stock Option Plan to the named executive officers reflected in the Summary Compensation Table.

NAME	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS(1)	
	NUMBER OF UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Mark C. Layton.....	90,000	7.5%	\$10.45	7-1-09	\$591,475	\$1,498,915
Christopher Yates....	85,000	7.1	10.45	7-1-09	558,616	1,415,642
Steven S. Graham....	75,000	6.2	10.45	7-1-09	492,896	1,249,096
Thomas J. Madden....	85,000	7.1	10.45	7-1-09	558,616	1,415,642
C. Clifford Defee....	80,000	6.7	10.45	7-1-09	525,756	1,332,369

(1) These are hypothetical values using assumed annual rates of stock price appreciation as prescribed by the rules of the SEC.

Substitute Stock Options

In connection with the completion of the spin-off, all Daisytek stock options held by Daisytek employees who are transferred to PFSweb will be replaced with options to acquire a number of shares of our common stock equal to the number of shares of Daisytek common stock subject to such Daisytek stock option as of the date of the completion of the spin-off, multiplied by the Ratio described below, rounded down to the nearest whole share. The per share exercise price of such replaced stock option will equal the per share exercise price of such Daisytek stock option divided by the Ratio.

The "Ratio" means the amount determined by dividing:

- the average of the daily high and low per share prices of the Daisytek common stock, as reported in The Wall Street Journal, during the three trading days ending on the record date established by the Daisytek Board of Directors for the spin-off; by
- the average of the daily high and low per share prices of the PFSweb common stock, as reported by The Wall Street Journal, for the three trading days commencing on the day after such record date.

Substantially all of the other terms and conditions of each substitute stock option, including the time or times when, and the manner in which, each option will be exercisable, the duration of the exercise period, the permitted method of exercise, settlement and payment, the rules that will apply in the event of the termination of employment of the employee, the events, if any, that may give rise to an employee's right to accelerate the vesting or the time or exercise thereof and the vesting provisions, will be the same as those of the replaced Daisytek stock option.

It is not possible at this time to specify how many shares of our common stock will be subject to substitute stock options in replacement of Daisytek stock options. We expect that some Daisytek stock options may be exercised, some will vest and other Daisytek stock options could be terminated, prior to the date of the completion of the spin-off. In addition, the Ratio will not be known until the time of the spin-off. Our stockholders, are, however, likely to experience some dilutive impact from the above-described adjustments.

As of _____, 1999, there were _____ shares of Daisytek common stock subject to Daisytek stock options that will be replaced upon completion of the spin-off, and these options had a weighted average exercise price of \$ _____ per share. If the Ratio were determined as of such date, then based on a price of \$ _____ per share for the Daisytek common stock and a price of \$13.00 per share for our common stock (the mid-point of the range set forth on the cover page of this prospectus), the foregoing number of shares of Daisytek common stock subject to Daisytek stock options would be replaced with options for _____ shares of our common stock at a weighted average exercise price of \$ _____ per share.

Annual Incentive Plan

Officers and certain other key employees of PFSweb will be eligible to participate in the Annual Incentive Plan. The Compensation Committee may delegate authority to the PFSweb Board to determine individual awards to key employees who are not officers of PFSweb. The Plan provides for the opportunity to grant cash awards based upon the achievement of certain target levels of performance.

Under the Plan, at the beginning of each year, the Compensation Committee is authorized, but not required, to establish a targeted performance level at which a target performance award may be earned, with a threshold or minimum performance level below which no award will be paid, and a maximum level beyond which no additional amounts will be paid, and to establish the corresponding minimum and maximum awards. In determining the performance criteria applicable to any grant of awards, the Compensation Committee may use one or more business criteria it deems appropriate. The Plan is discretionary, and the Compensation Committee or the Board may elect not to grant any awards in any year.

The percentage of each target performance award which will become a final award and be paid to the employee will be determined by the Compensation Committee on the basis of the performance goals established and the related performance achieved, as well as the employee's individual performance during the period. Final awards actually paid to an employee may be less than or greater than 100% of the target award. Final awards may be subject to a vesting schedule established by the Compensation Committee. The Compensation Committee may delegate authority to the PFSweb Board to determine individual final awards for employees who are not officers, subject to a maximum amount approved by the Compensation Committee.

Subject to certain exceptions, the Compensation Committee generally has the power and authority to amend, modify, suspend or terminate the Plan.

No awards have been granted under the Plan, nor has the Compensation Committee established any targeted performance levels for 1999 or for any year thereafter.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION.

The members of our Compensation Committee are Messrs. Reilly and Murray, who also serve as the members of the Compensation Committee of Daisytek.

CERTAIN TRANSACTIONS

The separation of PFSweb from Daisytek will be effected pursuant to a Master Separation Agreement and other ancillary agreements that will govern various interim and ongoing relationships between us and Daisytek. These agreements relate to this offering and the spin-off, our provision of transaction management services to Daisytek, tax matters and the provision of certain interim services. These agreements also require us to cooperate with Daisytek to complete the spin-off and provide for registration rights for Daisytek in the event the spin-off is not completed or is completed without Daisytek divesting itself of all of its PFSweb common stock.

All of our agreements with Daisytek were made in the context of a parent-subsidary relationship and were negotiated in the overall context of our spin-off from Daisytek. Although we generally believe that the terms of these agreements are consistent with fair market values, we cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

We have set forth below a summary description of the Master Separation Agreement and certain of the ancillary agreements. This description, which summarizes the material terms of such agreements, is not complete. You should read the full text of these agreements, which have been filed with the SEC as exhibits to the registration statement of which this prospectus is a part.

MASTER SEPARATION AGREEMENT

The Master Separation Agreement sets forth our agreements with Daisytek with respect to the principal corporate transactions required to effect the transfers of assets and assumptions of liabilities necessary to separate our company from Daisytek and certain other agreements governing our relationship thereafter.

Transfer of Assets and Liabilities. Upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek \$5.7 million in cash and assume \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets. We will also repay to Daisytek, from the net proceeds of this offering, the then outstanding balance of our payable to Daisytek (\$ million at October 31, 1999). Daisytek is not making any representation or warranty with respect to any asset being transferred to us.

Indemnification. We have agreed to indemnify Daisytek against any losses, claims, damages or liabilities arising from the liabilities transferred to us and the conduct of our business after the completion of this offering. Daisytek has agreed to retain and indemnify us against any losses, claims, damages or liabilities arising from the conduct of our business prior to the completion of this offering.

INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

General. We will enter into an Initial Public Offering and Distribution Agreement with Daisytek which governs our respective rights and duties with respect to this offering and the spin-off, and sets forth certain covenants to which we will be bound for various periods following the offering and the spin-off. Although Daisytek has announced that it plans to complete the spin-off, and we have agreed to cooperate with Daisytek to complete the spin-off, there are various conditions to the completion of the spin-off. Consequently, we cannot assure you as to whether or when the spin-off will occur.

The Spin-off. The completion of the spin-off is subject to the satisfaction, or waiver by Daisytek in its sole discretion, of various conditions, including the following:

- Receipt by Daisytek of a ruling by the Internal Revenue Service that, among certain other tax consequences of the transaction, the spin-off will qualify as a tax-free distribution for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek or its shareholders. Daisytek may, in its sole and absolute discretion, determine not to seek such a ruling and instead proceed on the basis of an opinion from its professional advisor, in form and substance reasonably satisfactory to it, as to the qualification of the transaction for tax-free treatment.
- Obtaining any material consents necessary to consummate the spin-off which shall be in full force and effect.
- No court orders, injunctions, decrees, regulations or other legal restraint prohibiting or restricting the completion of the spin-off shall exist.
- No events or developments shall have occurred subsequent to the closing of this offering that, in the sole judgement of Daisytek, would result in the spin-off having a materially adverse effect on Daisytek, PFSweb, or their shareholders.

We have agreed to cooperate with Daisytek to accomplish the spin-off and, at Daisytek's direction, promptly take all actions necessary or desirable to effect the spin-off. In the event that any of these conditions are not satisfied, or waived by Daisytek in its sole discretion, Daisytek's rights and our obligations under the Registration Rights Agreement described below will become immediately effective.

Substitute Stock Options. In connection with the completion of the spin-off, all Daisytek stock options held by Daisytek employees who are transferred to PFSweb will be replaced with options to acquire shares of our common stock. See "Substitute Stock Options."

Preservation of the Tax-free Status of the Spin-off. Daisytek intends for the spin-off to qualify as a tax-free distribution under Section 355 of the Code to Daisytek and its stockholders. Daisytek intends to seek either a private letter ruling (the "IRS Ruling") from the Internal Revenue Service or an opinion from its professional tax adviser (the "Tax Opinion") to such effect. In either case, we will be required to make certain representations and warranties regarding our company and our business and Daisytek will be required to make certain representations and warranties regarding it and its business. We have also agreed to certain covenants that are intended to preserve the tax-free status of the spin-off. We may take any action otherwise prohibited by these covenants only if Daisytek has determined, in its sole and absolute discretion, that such action would not jeopardize the tax-free status of the spin-off. These covenants include:

- Stock Issuance. Prior to the completion of the spin-off, we have agreed not to issue shares of our capital stock in an amount that would result in Daisytek owning less than 80% of the total combined voting power of all outstanding shares of our voting stock and/or less than 80% of any other class and/or series of PFSweb capital stock (or otherwise cause Daisytek not to be in control of PFSweb immediately prior to the spin-off, within the meaning of Section 368(c) of the Code). This covenant will not prohibit us from issuing stock options to our employees or outside directors so long as such options will not vest or be exercisable prior to the effective date of the spin-off or we repurchase sufficient shares of our capital stock prior to the date when such options become exercisable to ensure that Daisytek's ownership remains at or higher than 80% and Daisytek approves of our procedures to comply with this covenant.
- Certain Acquisition Transactions. Until two years after the completion of the spin-off, we have agreed not to enter into or permit any transaction or series of transactions that would result in a person or persons acquiring or having the right to acquire shares of our capital stock that would comprise 50% or more of either the value of all outstanding shares of our capital stock or the total combined voting power of our outstanding voting stock.

- Continuation of Active Trade or Business. Until two years after the completion of the spin-off, we have agreed to continue to conduct the active trade or business (within the meaning of Section 355 of the Code) of our company as we conducted it immediately prior to the completion of the spin-off. During such time, we have agreed not to:
 - liquidate, dispose of or otherwise discontinue the conduct of any substantial portion of our active trade or business; or
 - dispose of any business or assets that would cause our company to be operated in a manner inconsistent in any material respect with the business purposes for the spin-off as described in our representations made in connection with Daisytek's request for the IRS Ruling or Tax Opinion.
- Continuity of Business. Until two years after the completion of the spin-off, we have agreed that we will not voluntarily dissolve or liquidate; and, except in the ordinary course of business, neither we nor any of our direct or indirect subsidiaries will sell, transfer, or otherwise dispose of or agree to dispose of assets (including any shares of capital stock of our subsidiaries) that, in the aggregate, constitute more than 60% of our assets.
- Discharge of Intracompany Debt. Prior to the first date on which Daisytek distributes any PFSweb common stock in connection with the spin-off, we have agreed to fully discharge and satisfy all debt that we owe Daisytek (for such purpose, debt does not include payables arising in the ordinary course of business). Until two years after the completion of the spin-off, we will not be able to have any such indebtedness with Daisytek.

These covenants will not prohibit us from implementing or complying with any transaction permitted by an IRS ruling or a tax opinion. In the event that Daisytek notifies us that it no longer intends to proceed with or complete the spin-off and Daisytek has not yet distributed any of its PFSweb common stock, these covenants to preserve the tax-free status of the spin-off will terminate.

Other Covenants Regarding Tax Treatment of the Transactions. Daisytek intends the transfer of assets and liabilities from Daisytek to our company as provided by the master separation agreement (the "Contribution") to qualify as a reorganization under Section 368(a)(1)(D) of the Code (a "D Reorganization"). Until two years after the completion of the spin-off, we have agreed not to take, or permit any of our subsidiaries to take, any actions or enter into any transaction or series of transactions that would be reasonably likely to jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization, including any action or transaction that would be reasonably likely to be inconsistent with any representation made in connection with Daisytek's request for the IRS Ruling or Tax Opinion. We have also agreed to take any reasonable actions necessary for the Contribution and the spin-off to qualify as a D Reorganization. We may take any action that would otherwise violate this covenant only if Daisytek determines, in its sole and absolute discretion, that such action or transaction would not jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization.

Cooperation on Tax Matters. We and Daisytek have agreed to various procedures with respect to the tax-related covenants described above, and we are required to notify Daisytek if we desire to take any action prohibited by these covenants. Upon such notification, if Daisytek determines that such action might jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization, Daisytek will either use all commercially reasonable efforts to obtain a private letter ruling from the IRS or a tax opinion that would permit us to take the desired action or provide all reasonable cooperation to us in connection with our obtaining such an IRS ruling or tax opinion. In either case, Daisytek has agreed to bear the reasonable costs and expenses of obtaining the IRS ruling or tax opinion, unless it is determined that our proposed action will jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization, in which event we will be responsible for such costs and expenses.

Indemnification for Tax Liabilities. We have generally agreed to indemnify Daisytek and its affiliates against any and all tax-related losses incurred by Daisytek in connection with any proposed tax assessment or tax controversy with respect to the spin-off or the Contribution to the extent caused by any breach by us of any of our representations, warranties or covenants. This indemnification does not apply to actions that Daisytek permits us to take as a result of a determination under the tax-related covenants as described above. Similarly, Daisytek has agreed to indemnify us and our affiliates against any and all tax-related losses incurred by us in connection with any proposed tax assessment or tax controversy with respect to the spin-off or the Contribution to the extent caused by any breach by Daisytek of any of its representations, warranties or covenants.

Other covenants. After the offering, Daisytek will continue to own a significant portion of our common stock. As a result, Daisytek will continue to include us as a "subsidiary" for various financial reporting, accounting and other purposes. Accordingly, for so long as Daisytek continues to own at least 50% of our outstanding common stock, we have agreed that:

- we will not, without Daisytek's prior written consent (which it may withhold in its sole and absolute discretion), take any action which has the effect of limiting Daisytek's ability to freely sell, pledge or otherwise dispose of shares of our common stock or limiting the legal rights of or denying any benefit to Daisytek as a stockholder in a manner not applicable to stockholders generally;
- we will not, without Daisytek's prior written consent (which it may withhold in its sole and absolute discretion), issue any shares of common stock or any rights, warrants or options to acquire our common stock, if, after giving effect to such issuance, Daisytek would own less than 50% of the then outstanding shares of our common stock, except that this will not restrict us from issuing options that will not vest or become exercisable prior to the effective date of the spin-off; and
- to the extent that Daisytek is a party to, or enters into, any agreements that provide that certain actions of Daisytek's subsidiaries may result in Daisytek being in breach or default under such agreements (and we have been advised of the existence of such agreements), we will not take any actions that may result in Daisytek being in breach or default under any such agreement.

Financial Information. We have agreed that, for so long as Daisytek is required to consolidate our results of operations and financial position or account for its investment in our company, we will provide Daisytek certain financial information regarding our company and our subsidiaries, including copies of all quarterly and annual financial information and other reports and documents we intend to file with the SEC prior to such filings (as well as final copies upon filing) and copies of our budgets and financial projections (as well as the opportunity to meet with our management to discuss such budgets and projections). We have also agreed to consult with Daisytek regarding the timing and content of earnings releases and cooperate fully (and cause our accountants to cooperate fully) with Daisytek in connection with any of its public filings. This covenant is subject to appropriate confidentiality provisions to protect the confidentiality commitments we have made to our customers.

Auditors and Audits; Annual Statements and Accounting. We have agreed that, for so long as Daisytek is required to consolidate our results of operations and financial position or account for its investment in our company, we will not change our auditors (which currently are the same auditors as those retained by Daisytek) without Daisytek's prior written consent (which will not be unreasonably withheld) and will use our best efforts to enable our auditors to complete their audit of our financial statements so that they will date their opinion the same date that they date their opinion on Daisytek's financial statements. We have also agreed to provide to Daisytek and its auditors all information required for Daisytek to meet its schedule for the filing and distribution of its financial statements and to make available to Daisytek and its auditors all work papers related to

the annual audit of our company as well as access to the personnel who perform the annual audit and our and our subsidiaries' books and records so that Daisytek and its auditors may conduct reasonable audits relating to our financial statements. We have also agreed to adhere to certain specified accounting standards and to notify and consult with Daisytek regarding any changes to our accounting principles and make any changes to our accounting estimates and principles requested by Daisytek.

Indemnification. We have generally agreed to indemnify Daisytek and its affiliates against all liabilities arising out of any material untrue statements and omissions in this prospectus and the registration statement of which it is a part and in any and all registration statements, information statements and/or other documents filed with the SEC in connection with the spin-off or otherwise. However, our indemnification of Daisytek does not apply to information relating to Daisytek. Daisytek has agreed to indemnify us for this information.

Expenses. In general, we have agreed to pay all costs and expenses relating to this offering, including the underwriting discounts and commissions, and Daisytek has agreed to pay all costs and expenses relating to the spin-off.

REGISTRATION RIGHTS AGREEMENT

In the event the spin-off is not completed and Daisytek does not divest itself of all of its shares of PFSweb common stock, Daisytek could not freely sell all of such shares without registration under the Securities Act. Accordingly, we will enter into a registration rights agreement with Daisytek to provide it with certain registration rights relating to the shares of our common stock which it holds. These registration rights generally become effective at such time as Daisytek informs us that it no longer intends to or complete the spin-off.

Shares Covered. The registration rights agreement covers those shares of our common stock that are held by Daisytek immediately following this offering and continue to be held by Daisytek on the date on which Daisytek notifies us that it no longer intends to complete the spin-off.

Demand Registrations. Daisytek may request registration (each, a "Demand Registration") under the Securities Act of all or any portion of our shares covered by the registration rights agreement and we will be obligated to register such shares as requested by Daisytek. There is no limit to the number of Demand Registrations that Daisytek may request, except that the number of shares to be registered must have an aggregate expected offering price of at least \$10 million.

Terms of Each Offering. Daisytek will designate the terms of each offering effected pursuant to a Demand Registration, which may take any form, including an underwritten public offering, a shelf registration, or a registration in connection with an exchange offer or other distribution.

Timing of Demand Registrations. We are not required to undertake a Demand Registration within 90 days of the effective date of a previous Demand Registration, other than a Demand Registration that was effected as a shelf registration. Also, we have the right to postpone the filing or effectiveness of any Demand Registration for up to 90 days if in the reasonable judgment of our counsel such registration would reasonably be expected to have a material adverse effect on any of our existing proposals or plans to engage in certain material transactions; provided, however, that we may exercise this right only once in any 12-month period.

Priority on Demand Registrations. We and other parties can participate in any Demand Registration only if all of the securities Daisytek proposes to include in such registration are so included.

Piggyback Registrations. The registration rights agreement also provides for "piggyback" registration rights for Daisytek. Whenever we propose to register any of our securities under the Securities Act for ourselves or others, subject to certain customary exceptions, we must provide

prompt notice to Daisytek and include in such registration all shares of our stock which Daisytek requests to be included (each, a "Piggyback Registration").

Priority on Piggyback Registrations. If a Piggyback Registration is being made on our behalf and the underwriters advise us that a reduction in the number of shares to be sold is necessary, we must include in such registration: first, the securities we propose to offer; second, the securities requested to be included by Daisytek; and third, any other securities requested to be included in such registration. If a Piggyback Registration is being made on behalf of other holders of our securities and the underwriters advise us that a reduction in the number of shares to be sold is necessary, we must include in such registration: first, the securities requested to be included therein by the holders requesting such registration and the securities requested to be included therein by Daisytek, pro rata among such holders and Daisytek on the basis of the number of securities owned by each such holder; and second, any other securities requested to be included in such registration.

Registration Procedures and Expenses. The registration rights agreement sets forth various registration procedures, including a covenant by us to make available our senior management for road show presentations. All registration expenses incurred in connection with the registration rights agreement, including all filing fees, fees and expenses of compliance with securities and/or blue sky laws, financial printing expenses, fees and disbursements of custodians, transfer agents, exchange agents and/or information agents, and fees and disbursements of counsel and all independent certified public accountants, underwriters (excluding discounts and commissions) and other persons retained by us will be paid by us. In addition, we must reimburse Daisytek for the fees and disbursements of its outside counsel as well as out-of-pocket expenses incurred in connection with any such registration.

Indemnification. The registration rights agreement contains indemnification and contribution provisions by us for the benefit of Daisytek and any underwriters and by Daisytek for the benefit of us and any underwriters with respect to information provided by Daisytek.

Transfer. Daisytek may transfer shares covered by the registration rights agreement and the holders of such transferred shares will be entitled to the benefits of the registration rights agreement; provided that each such transferee agrees to be bound by the terms of the registration rights agreement.

Duration. The registration rights under the registration rights agreement will remain in effect with respect to any shares of our common stock until:

- such shares have been sold pursuant to an effective registration statement under the Securities Act;
- such shares have been sold to the public pursuant to Rule 144 under the Securities Act (or any successor provision);
- such shares have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the company and subsequent public distribution of them shall not require registration of them under the Securities Act or any similar state law;
- such shares have ceased to be outstanding; or
- in the case of shares held by a transferee of Daisytek, when such shares become eligible for sale pursuant to Rule 144(k) under the Securities Act (or any successor provision).

TAX MATTERS

We will enter into a tax allocation agreement with Daisytek to govern the allocation of tax liabilities and to set forth agreements with respect to certain other tax matters. Generally, under

the Code, we will cease to be a member of the Daisytek consolidated group upon the completion of the spin-off or if Daisytek owns less than 80% of our outstanding capital stock.

Daisytek generally will pay all taxes attributable to PFSweb and its subsidiaries for tax periods or portions thereof ending on or before the effective date of this offering, except to the extent of any accruals therefor on the books and records of PFSweb or its subsidiaries for such taxes under generally accepted accounting principles. Thereafter, for tax periods or portions thereof during which we are a member of the Daisytek consolidated, combined or unitary group, we will be apportioned our share of the group's income tax liability based on our taxable income determined separately from Daisytek's taxable income, and we will pay our calculated taxes to Daisytek, which will then file a consolidated, combined or unitary return with the appropriate tax authorities. There may be certain U.S. state or local jurisdictions in which we will file separate income tax returns, not combined or consolidated with Daisytek, for such tax periods. In that circumstance, we would file a tax return with the appropriate tax authorities, and pay all taxes directly to the tax authority. We will be compensated for tax benefits generated by our company before tax deconsolidation and used by the Daisytek consolidated group. We will prepare and file all tax returns, and pay all income taxes due with respect to all tax returns required to be filed by us for all tax periods after we cease to be a member of the Daisytek consolidated, combined or unitary group.

Daisytek is responsible for most U.S. tax adjustments related to PFSweb for all periods or portions thereof ending on or before the effective date of the offering. In addition, we and Daisytek have agreed to cooperate in any tax audits, litigation or appeals that involve, directly or indirectly, periods prior to the time that we cease to be a member of the Daisytek consolidated group. We and Daisytek have agreed to indemnify each other for tax liabilities resulting from the failure to cooperate in such audits, litigation or appeals, and for any tax liability resulting from the failure to maintain adequate records.

Notwithstanding the tax allocation agreement, for all periods in which Daisytek owns or owned 80% or more of our capital stock, we are included in Daisytek's consolidated group for federal income tax purposes. If Daisytek or other members of the consolidated group fail to make any federal income tax payments, we would be liable for the shortfall since each member of a consolidated group is liable for the group's entire tax obligation.

TRANSACTION MANAGEMENT SERVICES AGREEMENT

We will enter into a transaction management services agreement with Daisytek which will set forth the transaction management services that we will provide for Daisytek in connection with its U.S. wholesale consumable supplies business. Under this agreement, we will provide a wide range of transaction management services, including order fulfillment and distribution, product warehousing, inbound call center services, product return administration and other services.

The agreement has an initial term of five years from the completion of this offering, although either party has the right to terminate the agreement at any time, without cause. If Daisytek terminates the agreement without cause, Daisytek must provide us with at least 180 days' prior notice and pay us a termination fee. The termination fee is based upon the net value of the assets being transferred to us by Daisytek which are primarily used in servicing the Daisytek business. The termination fee declines over the five year term of the agreement. If we terminate the agreement without cause, we must provide Daisytek with at least 365 days' prior notice and Daisytek does not have to pay any termination fee. In addition, if there is a change in control of Daisytek, we may terminate the agreement upon 90 days' prior notice and Daisytek does not have to pay the termination fee. During the term of this agreement, Daisytek will pay us service fees based upon a percent of shipped revenue. We and Daisytek have agreed that these fees are based upon certain assumptions regarding the nature, cost and scope of the services we will be providing under the agreement. If these assumptions should prove to be materially incorrect, we and Daisytek

have agreed to negotiate in good faith an adjustment to the fees payable to us under the agreement.

During the term of the agreement, we have agreed not to engage, on our own behalf, in the business of selling or distributing, on a wholesale basis, any Daisytek products. This will not restrict us, however, from providing transaction management services to third parties who may be engaged in the business of selling or distributing, on a wholesale basis, the same or competing products.

As part of the restructuring of our arrangements with IBM, we have also entered into transaction management agreements with Daisytek to provide transaction management services, on a worldwide basis, in connection with their distribution of various IBM products. Under these agreements, we will receive service fees based upon a variable percent of shipped revenue. These agreements are coterminous with our IBM agreements which, generally, have terms of one to two years, although IBM may terminate these agreements at any time.

TRANSITION SERVICES AGREEMENT

Upon completion of this offering, we will enter into a transition services agreement with Daisytek. Under this agreement, Daisytek will provide us with various services relating to employee payroll and benefits, use of facilities, certain management information systems, insurance coverage and other administrative services. Daisytek will provide us with these services until the completion of the spin-off (the "Transition Period"), except that, with respect to any particular service, we may, upon notice to Daisytek, either terminate the Transition Period as of an earlier date or extend the Transition Period for up to one year from the completion of this offering.

The agreement requires us to use all commercially reasonable efforts to obtain these transition services from a source other than Daisytek prior to the conclusion of the Transition Period. If, however, we cannot obtain any transition service from a source other than Daisytek and the transition service is necessary for us to continue to operate our business, then, we may require Daisytek to continue to provide the transition service for an additional period not to exceed six months.

Generally, we will pay Daisytek for these transition services an amount equal to the cost historically allocated by Daisytek to our business, adjusted to reflect any changes in the nature, cost or level of the services so provided. If we require Daisytek to provide us with any transition service after the expiration of the Transition Period, we will pay Daisytek the fair market value of these services.

PRINCIPAL STOCKHOLDER

Prior to this offering, all of the outstanding shares of our common stock are owned by Daisytek. After this offering, Daisytek will own approximately 82.2% (or approximately 80.1% if the underwriters exercise their over-allotment option in full) of our outstanding common stock. Except for Daisytek, we are not aware of any person or group that will beneficially own more than 5% of the outstanding shares of our common stock following this offering. Daisytek's principal executive offices are located at 500 North Central Expressway, Plano, Texas 75074.

DESCRIPTION OF CAPITAL STOCK

Under our Amended and Restated Certificate of Incorporation, our authorized capital stock consists of 41,000,000 shares, of which 40,000,000 shares are common stock, no par value per share, and 1,000,000 shares are preferred stock, par value \$1.00 per share. Immediately following this offering, 17,405,000 shares of common stock, or 17,870,000 shares if the underwriters exercise their over-allotment option in full, will be outstanding. The following description of our capital stock is not complete and is qualified in its entirety by our Amended and Restated Certificate of Incorporation and Bylaws, both of which are included as exhibits to the registration statement of which this prospectus forms a part.

COMMON STOCK

Holders of common stock will be entitled to one vote per share with respect to each matter presented to our stockholders on which the holders of common stock are entitled to vote. Except as may be provided in connection with any preferred stock in a certificate of designation filed pursuant to the Delaware General Corporation Law ("DGCL"), or as may otherwise be required by law or the Amended and Restated Certificate of Incorporation, the common stock will be the only capital stock of PFSweb entitled to vote in the election of directors and on all other matters presented to the stockholders of PFSweb; provided that holders of common stock, as such, will not be entitled to vote on any matter that solely relates to the terms of any outstanding series of preferred stock or the number of shares of such series and does not affect the number of authorized shares of preferred stock or the powers, privileges and rights pertaining to the common stock. The common stock will not have cumulative voting rights.

Subject to the prior rights of holders of preferred stock, if any, holders of common stock are entitled to receive such dividends as may be lawfully declared from time to time by the Board of Directors of PFSweb. Upon any liquidation, dissolution or winding up of PFSweb, whether voluntary or involuntary, holders of common stock will be entitled to receive such assets as are available for distribution to stockholders after there shall have been paid or set apart for payment the full amounts necessary to satisfy any preferential or participating rights to which the holders of each outstanding series of preferred stock are entitled by the express terms of such series.

The outstanding shares of our common stock are, and the shares of common stock being offered hereby will be, upon payment therefor, validly issued, fully paid and nonassessable. The common stock sold in this offering will not have any preemptive, subscription or conversion rights. Additional shares of authorized common stock may be issued, as determined by the PFSweb Board from time to time, without stockholder approval, except as may be required by applicable law or stock exchange requirements.

PREFERRED STOCK

Our Board is empowered, without approval of the stockholders, to cause shares of preferred stock to be issued from time to time in one or more series, with the numbers of shares of each series and the designation, powers, privileges, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof as fixed by our Board. Among the specific matters that may be determined by the Board are:

- the designation of each series;
- the number of shares of each series;
- the rate of dividends, if any;
- whether dividends, if any, shall be cumulative or non-cumulative;
- the terms of redemption, if any;

- the amount payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of PFSweb;
- rights and terms of conversion or exchange, if any;
- restrictions on the issuance of shares of the same series or any other series, if any; and
- voting rights, if any.

Although no shares of preferred stock are currently outstanding and we have no current plans to issue preferred stock, the issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For example, a business combination could be impeded by the issuance of a series of preferred stock containing class voting rights that would enable the holder or holders of such series to block any such transaction. Alternatively, a business combination could be facilitated by the issuance of a series of preferred stock having sufficient voting rights to provide a required percentage vote of the stockholders. In addition, under certain circumstances, the issuance of preferred stock could adversely affect the voting power and other rights of the holders of the common stock. Although PFSweb's Board is required to make any determination to issue any such stock based on its judgment as to the best interests of the stockholders of PFSweb, it could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over prevailing market prices of such stock. PFSweb's Board does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange requirements.

LIMITATION ON LIABILITY OF DIRECTORS

Our Amended and Restated Certificate of Incorporation provides, as authorized by Section 102(b)(7) of the DGCL, that a director of PFSweb will not be personally liable to PFSweb or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability imposed by law (as in effect from time to time):

- for any breach of the director's duty of loyalty to PFSweb or its stockholders;
- for any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;
- for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or
- for any transaction from which the director derived an improper personal benefit.

The inclusion of this provision in the Amended and Restated Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited PFSweb and its stockholders.

SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

PFSweb is a Delaware corporation and subject to Section 203 of the DGCL. Generally, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time such stockholder became an interested stockholder unless certain conditions are satisfied. Thus, it may

make acquisition of control of our company more difficult. The prohibitions in Section 203 of the DGCL do not apply if:

- prior to the time the stockholder became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- at or subsequent to the time the stockholder became an interested stockholder, the business combination is approved by the board of directors and authorized by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Under Section 203 of the DGCL, a "business combination" includes:

- any merger or consolidation of the corporation with the interested stockholder;
- any sale, lease, exchange or other disposition, except proportionately as a stockholder of such corporation, to or with the interested stockholder of assets of the corporation having an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the corporation or the aggregate market value of all the outstanding stock of the corporation;
- certain transactions resulting in the issuance or transfer by the corporation of stock of the corporation to the interested stockholder;
- certain transactions involving the corporation which have the effect of increasing the proportionate share of the stock of any class or series of the corporation which is owned by the interested stockholder; or
- certain transactions in which the interested stockholder receives financial benefits provided by the corporation.

Under Section 203 of the DGCL, an "interested stockholder" generally is:

- any person that owns 15% or more of the outstanding voting stock of the corporation;
- any person that is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period prior to the date on which it is sought to be determined whether such person is an interested stockholder; and
- the affiliates or associates of any such person.

Because Daisytek owned more than 15% of our voting stock before we became a public company in this offering, Section 203 of the DGCL by its terms is currently not applicable to business combinations with us even though Daisytek owns 15% or more of our outstanding stock. If any other person acquires 15% or more of our outstanding stock, such person will be subject to the provisions of Section 203 of the DGCL.

CERTAIN PROVISIONS OF OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION AND BYLAWS

Our Bylaws contain provisions requiring that advance notice be delivered to PFSweb of any business to be brought by a stockholder before an annual or special meeting of stockholders and providing for certain procedures to be followed by stockholders in nominating persons for election to the PFSweb Board. Generally, only such business may be conducted at a special meeting of stockholders as is set forth in the notice for such meeting.

Our Bylaws provide that except as may be provided in connection with the issuance of any series of preferred stock, the number of directors shall be fixed from time to time pursuant to a

resolution adopted by our Board of Directors. PFSweb's Amended and Restated Certificate of Incorporation provides for a classified Board of Directors, consisting of three classes as nearly equal in size as practicable. Each class holds office until the third annual stockholders' meeting for election of directors following the most recent election of such class, except that the initial terms of the three classes expire in 2000, 2001 and 2002, respectively.

LISTING

Application will be made for quotation of our common stock on the Nasdaq National Market under the symbol "PFSW."

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is ChaseMellon Shareholder Services, LLC. Its address is 85 Challenger Road, Ridgefield Park, New Jersey 07660.

SHARES ELIGIBLE FOR FUTURE SALE

GENERAL

The 3,100,000 shares of our common stock sold in this offering, or 3,565,000 shares if the underwriters exercise their over-allotment option in full, will be freely tradable without restriction under the Securities Act, except for any such shares which may be acquired by an "affiliate" of PFSweb (an "Affiliate") as that term is defined in Rule 144 promulgated under the Securities Act, which shares will remain subject to the resale limitations of Rule 144.

The 14,305,000 shares of our common stock that will continue to be held by Daisytek after this offering constitute "restricted securities" within the meaning of Rule 144, and will be eligible for sale by Daisytek in the open market after this offering, subject to certain contractual lockup provisions and the applicable requirements of Rule 144, both of which are described below. PFSweb has granted certain registration rights to Daisytek. See "-- Registration Rights."

Generally, Rule 144 provides that a person who has beneficially owned "restricted" shares for at least one year will be entitled to sell on the open market in brokers' transactions within any three month period a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock; and
- the average weekly trading volume in the common stock on the open market during the four calendar weeks preceding such sale.

Sales under Rule 144 are also subject to certain post-sale notice requirements and the availability of current public information about PFSweb.

In the event that any person other than Daisytek who is deemed to be an Affiliate purchases shares of our common stock pursuant to this offering or acquires shares of our common stock pursuant to an employee benefit plan of PFSweb, the shares held by such person are required under Rule 144 to be sold in brokers' transactions, subject to the volume limitations described above. Shares properly sold in reliance upon Rule 144 to persons who are not Affiliates are thereafter freely tradable without restriction.

Sales of substantial amounts of our common stock in the open market, or the availability of such shares for sale, could adversely affect the price of our common stock. Daisytek has announced that it plans to complete its spin-off of PFSweb by distributing all of the shares of PFSweb common stock that it owns to the holders of Daisytek's common stock. Any shares distributed by Daisytek will be eligible for immediate resale in the public market without restrictions by persons other than

Affiliates of PFSweb. Affiliates of PFSweb would be subject to the restrictions of Rule 144 described above other than the one-year holding period requirement.

Each of PFSweb, Daisytek and the directors and executive officers of PFSweb and Daisytek have agreed that, without the prior written consent of Hambrecht & Quist on behalf of the underwriters, they will not, during the period ending 180 days after the date of this prospectus, sell or otherwise dispose of any shares of our common stock, subject to certain exceptions. The spin-off is specifically not exempted from this agreement. See "Underwriters."

An aggregate of 6,000,000 shares of our common stock are reserved for issuance under our stock option plans. We intend to file a registration statement on Form S-8 covering the issuance of shares of our common stock pursuant to these plans. Accordingly, the shares issued pursuant to these stock option plans will be freely tradable, subject to the restrictions on resale by Affiliates under Rule 144.

REGISTRATION RIGHTS OF DAISYTEK

Pursuant to the Registration Rights Agreement we will enter into with Daisytek, at any time after Daisytek informs us that it no longer intends to complete the spin-off or that the spin-off was completed without Daisytek divesting itself of 100% of our common stock that it held, Daisytek may require us to register under the Securities Act all or any portion of our common stock that it holds. Any of Daisytek's shares of our common stock registered pursuant to the Registration Rights Agreement would be eligible for immediate resale in the public market without restrictions by persons other than Affiliates of PFSweb. For more information regarding the Registration Rights Agreement, see "Registration Rights Agreement."

Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur (whether as a result of the spin-off, Daisytek's registration rights or otherwise), could have a material adverse effect on the market price of our common stock. See "Risk Factors."

UNDERWRITING

PFSweb has entered into an underwriting agreement with the underwriters named below. Hambrecht & Quist LLC, Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, William Blair & Company, LLC and Jefferies & Company, Inc. are acting as representatives of the underwriters.

The underwriting agreement provides for the purchase of a specific number of shares of common stock by each of the underwriters. The underwriters' obligations are several, which means that each underwriter is required to purchase a specified number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of common stock set forth opposite its name below.

UNDERWRITERS	NUMBER OF SHARES
- - - - -	- - - - -
Hambrecht & Quist LLC.....	
Dain Rauscher Wessels.....	
William Blair & Company, LLC.....	
Jefferies & Company, Inc.	
Total.....	

This is a firm commitment underwriting. This means that the underwriters have agreed to purchase all of the shares offered by this prospectus, other than those covered by the over-allotment option described below, if any are purchased. Under the underwriting agreement, if an

underwriter defaults in its commitment to purchase shares, the commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated, depending on the circumstances.

The representatives have advised PFSweb that the underwriters propose to offer the shares directly to the public at the public offering price that appears on the cover page of this prospectus. In addition, the representatives may offer some of the shares to certain securities dealers at such price less a concession of \$ per share. The underwriters may also allow to dealers, and such dealers may reallocate, a concession not in excess of \$ per share to certain other dealers. After the shares are released for sale to the public, the representatives may change the offering price and other selling terms at various times.

The underwriters have informed PFSweb that the underwriters do not intend to confirm discretionary sales of the shares of common stock offered by this prospectus.

PFSweb has granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of 465,000 additional shares from PFSweb to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to public will be \$46.3 million and the net proceeds to PFSweb will be approximately \$41.1 million. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the above table.

The following table provides information regarding the amount of the discount to be paid to the underwriters by PFSweb. Such amount is shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	PAID BY PFSWEB	
	NO EXERCISE	FULL EXERCISE
Per Share.....	\$	\$
Total.....	\$	\$

PFSweb estimates that the total expenses of the offering, excluding the underwriting discount, will be approximately \$.

PFSweb and Daisytek have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make for certain liabilities.

PFSweb, its executive officers and directors, and Daisytek have agreed to a 180-day lock up with respect to 14,305,000 shares of common stock that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. This means that, subject to certain exceptions, for a period of 180 days following the date of this prospectus, PFSweb, Daisytek and such persons may not offer, sell, pledge or otherwise dispose of PFSweb securities without the prior written consent of Hambrecht & Quist.

The underwriters have reserved for sale up to shares for employees, directors and certain other persons associated with PFSweb. These reserved shares will be sold at the public offering price that appears on the cover of this prospectus. The number of shares available for sale to the general public in the offering will be reduced to the extent reserved shares are purchased by these persons. The underwriters will offer to the general public, on the same terms as other shares offered by this prospectus, any reserved shares that are not purchased by these persons.

Prior to this offering, there has been no public market for the common stock. Consequently, the offering price for the common stock has been determined by negotiations between PFSweb and the underwriters and is not necessarily related to PFSweb's asset value, net worth or other established criteria of value. The factors considered in such negotiations, in addition to prevailing market conditions, included the history of and prospects for the industry in which PFSweb competes, an assessment of PFSweb's management, PFSweb's prospects, its capital structure, prevailing market conditions, its results of operations in recent periods and certain other factors as were deemed relevant.

Rules of the SEC may limit the ability of the underwriters to bid for or purchase shares before the distribution of the shares is completed. However, the underwriters may engage in the following activities in accordance with the rules:

- Stabilizing transactions. The representatives may make bids or purchases for the purpose of pegging, fixing or maintaining the price of the shares, so long as stabilizing bids do not exceed a specified maximum.
- Over-allotments and syndicate covering transactions. The underwriters may create a short position in the shares by selling more shares than are set forth on the cover page of this prospectus. If a short position is created in connection with the offering, the representatives may engage in syndicate covering transactions by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the over-allotment option.
- Penalty bids. If the representatives purchase shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering.

Stabilization and syndicate covering transactions may cause the price of the shares to be higher than it would be in the absence of such transactions. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages resales of the shares.

Neither PFSweb nor the underwriters makes any representation or prediction as to the effect that the transactions described above may have on the price of the shares. These transactions may occur on the Nasdaq National Market or otherwise. If such transactions are commenced, they may be discontinued without notice at any time.

Timothy M. Murray, a director of PFSweb, is a Principal of William Blair & Company, LLC.

LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for PFSweb by Wolff & Samson P.A., Roseland, New Jersey. Legal matters in connection with this offering will be passed upon for the underwriters by Gibson, Dunn & Crutcher LLP, New York, New York.

EXPERTS

The financial statements and schedule included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Items are omitted in accordance with the rules and regulations of the Commission. For further information with respect to PFSweb and our common stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed as a part thereof. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and, in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference to such exhibit. The Registration Statement, including exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at the North Western Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, NY 10048, and copies of all or any part thereof may be obtained from such office after payment of fees prescribed by the Commission. The Commission maintains a Web site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

As a result of this offering, we will become subject to the full informational requirements of the Securities Exchange Act of 1934, as amended. We will fulfill our obligations with respect to such requirements by filing periodic reports and other information with the SEC. We intend to furnish our shareholders with annual reports containing consolidated financial statements certified by an independent public accounting firm. We also maintain an Internet site at <http://www.pfsweb.com>. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daisytek International Corporation and PFSweb, Inc.:

We have audited the accompanying combined balance sheets of PFSweb (representing the business operations of certain subsidiaries of Daisytek International Corporation -- see Note 1) as of March 31, 1999 and 1998, and the related combined statements of operations, shareholder's equity and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PFSweb as of March 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Dallas, Texas,
September 22, 1999

PFSWEB
COMBINED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	MARCH 31,	
	1998	1999
	-----	-----
CURRENT ASSETS:		
Cash.....	\$ 113	\$ 587
Accounts receivable, net of allowance for doubtful accounts of \$318 and \$635 at March 31, 1998 and 1999, respectively.....	8,946	22,190
Inventories, net.....	11,263	29,856
Prepaid expenses and other current assets.....	--	997
Deferred tax asset.....	261	453
	-----	-----
Total current assets.....	20,583	54,083
	-----	-----
PROPERTY AND EQUIPMENT, at cost:		
Furniture, fixtures and equipment.....	393	3,009
Leasehold improvements.....	2	32
	-----	-----
	395	3,041
Less -- Accumulated depreciation and amortization.....	(67)	(330)
	-----	-----
Net property and equipment.....	328	2,711
OTHER ASSETS.....	--	12,263
	-----	-----
Total assets.....	\$20,911	\$69,057
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable.....	\$18,725	\$38,329
Accrued expenses.....	514	1,118
	-----	-----
Total current liabilities.....	19,239	39,447
	-----	-----
PAYABLE TO DAISYTEK.....	1,780	28,889
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 4 and 8)		
SHAREHOLDER'S EQUITY:		
Daisytek's net equity investment.....	(53)	852
Accumulated other comprehensive loss.....	(55)	(131)
	-----	-----
Total shareholder's equity.....	(108)	721
	-----	-----
Total liabilities and shareholder's equity.....	\$20,911	\$69,057
	=====	=====

The accompanying notes are an integral part of these combined statements.

PFSWEB

COMBINED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
REVENUES:			
Product revenue.....	\$16,543	\$45,804	\$ 93,702
Service fee revenue.....	1,034	3,539	7,547
Total revenues.....	17,577	49,343	101,249
COSTS OF REVENUES:			
Cost of product revenue.....	15,768	43,392	88,335
Cost of service fee revenue.....	596	2,208	5,323
Total costs of revenues.....	16,364	45,600	93,658
Gross profit.....	1,213	3,743	7,591
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,058	3,645	6,559
Income from operations.....	155	98	1,032
INTEREST EXPENSE, net.....	77	143	374
Income (loss) before income taxes.....	78	(45)	658
PROVISION (BENEFIT) FOR INCOME TAXES.....	44	(7)	273
NET INCOME (LOSS).....	\$ 34	\$ (38)	\$ 385
NET INCOME (LOSS) PER SHARE:			
Basic and diluted.....	\$ 0.00	\$ (0.00)	\$ 0.03
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic and diluted.....	14,305	14,305	14,305

The accompanying notes are an integral part of these combined statements.

PFSWEB

COMBINED STATEMENTS OF SHAREHOLDER'S EQUITY
(IN THOUSANDS)

	DAISYTEK'S NET EQUITY INVESTMENT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDER'S EQUITY	COMPREHENSIVE INCOME (LOSS)
	-----	-----	-----	-----
BALANCE, March 31, 1996.....	\$ (49)	\$ --	\$ (49)	
Net income.....	34	--	34	\$ 34
Other comprehensive income -- foreign currency translation adjustment.....	--	17	17	17
	----	----	----	----
Comprehensive income.....				\$ 51
				=====
BALANCE, March 31, 1997.....	(15)	17	2	
Net loss.....	(38)	--	(38)	\$ (38)
Other comprehensive loss -- foreign currency translation adjustment.....	--	(72)	(72)	(72)
	----	----	----	----
Comprehensive loss.....				\$(110)
				=====
BALANCE, March 31, 1998.....	(53)	(55)	(108)	
Net income.....	385	--	385	\$ 385
Contributed capital.....	520	--	520	
Other comprehensive loss -- foreign currency translation adjustment.....	--	(76)	(76)	(76)
	----	----	----	----
Comprehensive income.....				\$ 309
				=====
BALANCE, March 31, 1999.....	\$852	\$(131)	\$ 721	
	=====	=====	=====	

The accompanying notes are an integral part of these combined statements.

PFSWEB

COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ 34	\$ (38)	\$ 385
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	3	63	275
Provision for doubtful accounts.....	122	299	344
Deferred income tax benefit.....	(41)	(222)	(192)
Changes in operating assets and liabilities:			
Accounts receivable.....	(5,138)	(3,622)	(13,561)
Inventories, net.....	(9,856)	(1,393)	(18,556)
Prepaid expenses and other current assets.....	--	--	(993)
Trade accounts payable and accrued expenses.....	9,743	9,471	20,185
Net cash provided by (used in) operating activities....	(5,133)	4,558	(12,113)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment.....	(100)	(294)	(2,656)
Increase in other assets.....	--	--	(12,264)
Net cash used in investing activities.....	(100)	(294)	(14,920)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contribution.....	--	--	520
Increase (decrease) in payable to Daisytek.....	5,222	(4,072)	27,109
Net cash provided by (used in) financing activities....	5,222	(4,072)	27,629
EFFECT OF EXCHANGE RATES ON CASH.....	15	(83)	(122)
NET INCREASE IN CASH.....	4	109	474
CASH, beginning of period.....	--	4	113
CASH, end of period.....	\$ 4	\$ 113	\$ 587

The accompanying notes are an integral part of these combined statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION:

PFSweb (the "Company") reflects the business operations of certain wholly-owned subsidiaries of Daisytek International Corporation ("Daisytek"). PFSweb's business unit was formed in 1991 and expanded in 1996 under the name "Priority Fulfillment Services." The Company is currently wholly-owned by Daisytek. Accordingly, Daisytek exerts substantial influence over, and has the ability to direct all operations of, the Company. The Company is an international provider of transaction management services to both traditional and e-commerce companies and sells products and services primarily in the United States, Canada and Europe. The Company offers such services as order management, customer care, billing, credit management and collection, information management, and distribution. The Company provides its services under fee-based contracts (where service fee revenue is based on either the sales value of the products or service activity volume) and under master distributor agreements (where the Company takes title to and resells the product).

In June 1999, Daisytek created a separate wholly-owned subsidiary named PFSweb, Inc., a Delaware corporation, to become a holding Company for PFSweb upon completion of an initial public offering (the "Offering"). Daisytek has contributed \$20,000 for 14,305,000 shares of PFSweb, Inc. Simultaneous with the effective date of this Offering, the assets, liabilities and equity which currently comprise PFSweb will be contributed to PFSweb, Inc. No separate financial statements of PFSweb, Inc. have been provided because it is a holding company and they only reflect cash and equity of \$20,000.

Daisytek plans to divest PFSweb, Inc. in two stages. The first stage involves the sale and issuance of common stock of PFSweb, Inc. in this Offering. The second stage, planned to occur in the year 2000, involves Daisytek distributing to holders of its common stock all of its interest in PFSweb, Inc. through a spin-off transaction in which the shares of PFSweb, Inc. would be distributed to Daisytek common stockholders on a pro-rata basis. Daisytek, however, is not obligated to effect the spin-off through the distribution of its interest and the Company cannot provide assurance as to whether or when it will occur.

The accompanying combined financial statements are presented on a carve-out basis and reflect the combined historical results of operations, financial position and cash flows of the Company. For all periods presented, certain expenses reflected in the combined financial statements include an allocation of certain Daisytek corporate expenses and infrastructure costs (see Note 6). Management believes that the method used to allocate expenses is reasonable, although the cost of services could be higher if obtained from other sources. In addition, certain service fee revenue and cost of service fee revenue have been reflected by PFSweb for services subcontracted to PFSweb by Daisytek. The service fee revenue, cost of service fee revenue and allocated expenses have been reflected on bases that Daisytek and PFSweb consider to be a reasonable reflection of the services provided and revenue earned by PFSweb and the utilization of services provided by Daisytek and the benefit received by PFSweb. However, an allocation of the salaries and benefits of Daisytek corporate executives have not been allocated or reflected in the combined financial statements of PFSweb because management believes that the services provided by these executives were related to corporate level activities. The financial information included herein may not reflect the combined financial position, operating results, changes in Daisytek's net investment and cash flows of PFSweb in the future or what it would have been had PFSweb been a separate, stand-alone entity during the periods presented.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

2. SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF COMBINATION

The combined financial statements include the accounts and the historical results of operations and cash flows of PFSweb during each respective period. All significant PFSweb intercompany accounts and transactions have been eliminated.

USE OF ESTIMATES

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The allocation of certain expenses (see Notes 1 and 6) in these financial statements required management estimates and assumptions. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes product revenue upon shipment of product to customers and provides for estimated returns and allowances. The Company's service fee revenues are recognized at the time the service is provided to its client. Certain contracts involve third-party vendors who provide services such as package delivery. The costs incurred by the Company related to such third-party services are typically passed on to clients and are generally not reflected in revenue or expense.

COSTS OF REVENUES

The Company recognizes cost of product revenue upon shipment of product to customers. The Company's cost of service fee revenue is recognized as incurred and represents costs incurred to provide services under fee-based contracts, including salaries, shipping, supplies, and facility costs.

CONCENTRATION OF BUSINESS AND CREDIT RISK

All of the Company's product revenue for the fiscal years ended March 31, 1997, 1998 and 1999, was generated by sales of product purchased under master distributor agreements with one supplier. Sales to Daisytek accounted for approximately 44%, 22% and 13% of the Company's revenue for the fiscal years ended March 31, 1997, 1998 and 1999, respectively. No other client accounted for 10% or more of the Company's revenue during such periods. As of March 31, 1998 and 1999, one customer accounted for approximately 39% and 23% of accounts receivable, respectively.

CASH AND CASH EQUIVALENTS

Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less.

ACCOUNTS RECEIVABLE

Accounts receivable include outstanding trade accounts receivables as well as certain unbilled amounts owed to PFSweb by clients in accordance with contracts. The amount of unbilled receivables at March 31, 1998 and 1999 was approximately \$726,000 and \$2,709,000, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

INVENTORIES

Inventories (merchandise held for resale, all of which are finished goods) are stated at the lower of weighted average cost or market.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets which range from three to ten years.

The Company periodically evaluates whether events or circumstances have occurred that indicate that long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. To date, no such impairment has been recognized.

OTHER ASSETS

Other assets includes approximately \$12.1 million related to a non-current receivable from a client of the Company. During fiscal 1999, the Company entered into a long-term contractual agreement whereby the Company finances certain inventory owned by the client. The Company warehouses this client inventory and distributes it upon the sale to third parties by the client, who controls the disposition of this inventory. The Company has the contractual right to collect the receivable in full at the conclusion of the contract. In addition to service fees, the Company charges the client an asset management fee, a portion of which results in interest income.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

For the Company's Canadian operations, the local currency is the functional currency. All assets and liabilities are translated at exchange rates in effect at the end of the period, and income and expense items are translated at the average exchange rates for the period. Translation adjustments are reported as a separate component of shareholder's equity.

For the Company's European operations, the U.S. dollar is the functional currency. Monetary assets and liabilities are translated at the rates of exchange on the balance sheet date and certain assets (notably inventory, and property and equipment) are translated at historical rates. Income and expense items are translated at average rates of exchange for the period except for those items of expense, which relate to assets, which are translated at historical rates. The gains and losses from foreign currency transactions and translation related to these subsidiaries are included in net income and have not been material.

INCOME TAXES

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes", deferred taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. These differences relate primarily to provisions for doubtful accounts, reserves for inventory, book versus tax depreciation differences, and certain accrued expenses deducted for book purposes but not yet deductible for tax purposes. (See Note 7.)

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates fair value based on market information and appropriate valuation methodologies. Fair value is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The fair values of all financial instruments approximate their carrying amounts in the accompanying combined balance sheets.

NET INCOME (LOSS) PER COMMON SHARE

The Company computed net income (loss) per share in accordance with SFAS No. 128 "Earnings Per Share." Basic and diluted net income (loss) per share attributable to PFSweb was determined based on net income (loss) divided by the 14,305,000 shares of PFSweb, Inc. (see Note 1) outstanding prior to this Offering. For purposes of the net income (loss) per share calculation, the shares outstanding prior to this Offering are treated as outstanding for all periods presented. There were no potentially dilutive securities outstanding of PFSweb, Inc. during the periods presented.

ADOPTION OF NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that an entity recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be used to hedge certain types of transactions, including foreign currency exposures of a net investment in a foreign operation. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, with initial application as of the beginning of an entity's fiscal quarter. SFAS No. 133 is not expected to have a significant effect on the financial condition or operations of the Company.

CASH PAID DURING YEAR

The Company made payments for interest of approximately \$16,000, \$0, and \$0, and income taxes of approximately \$0, \$139,000, \$269,000 during the fiscal years ended March 31, 1997, 1998 and 1999, respectively (see Notes 3 and 7). Unpaid taxes payable and intercompany accrued interest are included in the payable to Daisytek.

3. PAYABLE TO DAISYTEK:

Funds advanced by Daisytek to fund the Company's working capital requirements and certain investment activities have been reflected as an intercompany payable. This intercompany payable will be repaid by the Company upon the closing of the Offering. Interest expense charged by Daisytek was based on its weighted average interest rates of 6.1%, 6.9%, and 6.7% and approximated \$279,000, \$497,000, and \$1,039,000 for the fiscal years ended March 31, 1997, 1998 and 1999, respectively.

Daisytek is not required to provide PFSweb with funding in the future and PFSweb will be restricted from borrowing from Daisytek following the spin-off.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

4. GUARANTEE OF DAISYTEK DEBT

PFSweb, along with several other Daisytek subsidiaries, has guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). As of March 31, 1999, Daisytek had borrowed \$29.8 million and has a maximum borrowing availability of \$85.0 million under the Facility, leaving approximately \$55.2 million available under the Facility. The Facility, and PFSweb's guarantee thereon, expires on December 31, 2000.

5. STOCK OPTIONS:

Certain of the Company's employees, and individuals that are expected to become Company employees upon this Offering and/or spin-off transaction described in Note 1, have been granted Daisytek stock options under Daisytek's stock option compensation plans (the "Plans"). The purpose of the Plans is to benefit and advance the interests of Daisytek by rewarding officers and certain key employees for their contributions to the financial success of Daisytek and thereby motivating them to continue to make such contributions in the future. The Plans provide for fixed grants of both incentive stock options and nonqualified stock options. The stock options generally vest over a three to five year period from the date of grant and expire 10 years after the date of grant.

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of SFAS 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for the Plans and accordingly, does not recognize compensation expense for its stock option plans because Daisytek typically does not issue options at exercise prices below the market value at date of grant. Had compensation expense for Daisytek's stock option plans applicable to the Company's employees been determined based upon the fair value at the grant date for awards consistent with the methodology prescribed by SFAS 123, the Company's combined pretax income would have decreased by \$943,000, \$787,000 and \$2,531,000 in fiscal years ended March 31, 1997, 1998 and 1999, respectively. These pro forma effects may not be representative of expense in future periods since the estimated fair value of stock options on the date of grant is amortized to expense over the vesting period. Additional options may be granted in future years. Options issued prior to April 1, 1995 were excluded from the computation.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in fiscal year 1997: no dividends, expected volatility ranging between 39.25% and 39.50%; risk-free interest rate ranging between 5.9% and 6.6%; and expected life of 6 years. The following assumptions were used for grants during the fiscal year 1998: no dividends, expected volatility ranging between 40.97% and 41.40%; risk-free interest rate ranging between 5.6% and 6.8%; and expected life of 6 years. The following assumptions were used for grants during the fiscal year 1999: no dividends, expected volatility ranging between 41.42% and 47.92%; risk-free interest rate ranging between 4.6% and 5.5%; and expected life of 6 years.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes stock option activity under various Daisytek plans as it relates to PFSweb employees:

	SHARES	PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, March 31, 1996.....	561,470	\$ 0.64 - \$ 9.75	\$ 4.88
Granted.....	275,266	\$15.50 - \$16.25	\$16.11
Exercised.....	(34,052)	\$ 2.65 - \$ 9.75	\$ 5.16
Canceled.....	--	\$ -- - \$ --	\$ --
Outstanding, March 31, 1997.....	802,684	\$ 0.64 - \$16.25	\$ 8.72
Granted.....	570,370	\$12.50 - \$19.63	\$12.87
Exercised.....	(252,436)	\$ 0.64 - \$ 9.75	\$ 2.47
Canceled.....	(296,442)	\$ 9.75 - \$16.25	\$15.80
Outstanding, March 31, 1998.....	824,176	\$ 0.64 - \$19.63	\$10.96
Granted.....	1,807,886	\$12.88 - \$22.88	\$15.13
Exercised.....	(108,832)	\$ 0.64 - \$12.50	\$ 3.41
Canceled.....	(146,739)	\$ 9.75 - \$22.88	\$16.05
Outstanding, March 31, 1999.....	2,376,491	\$ 2.65 - \$22.88	\$14.16

The weighted average fair values of options granted during each of the years ended March 31, 1997, 1998 and 1999, were \$8.03, \$7.05 and \$7.68, respectively. As of March 31, 1997, 1998 and 1999, 358,982, 183,956 and 243,747, respectively, of options outstanding were exercisable. The weighted average exercise price of exercisable options outstanding at March 31, 1997, 1998 and 1999, were \$2.56, \$5.74 and \$10.44, respectively. The remaining options will become exercisable over the next three to five years based on vesting percentages.

The following table summarizes information concerning currently outstanding and exercisable Daisytek stock options issued to PFSweb employees at March 31, 1999:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	OUTSTANDING AS OF MARCH 31, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AS OF MARCH 31, 1999	WEIGHTED AVERAGE EXERCISE PRICE	
\$ 2.65	5,613	3.0	\$ 2.65	5,613	\$ 2.65	
\$ 9.75 - \$14.06	1,963,631	8.7	\$12.52	237,884	\$10.62	
\$15.50 - \$22.88	407,247	9.3	\$22.22	250	\$16.25	

6. TRANSACTIONS WITH DAISYTEK AND OTHER RELATED PARTIES:

The Company's product revenue from sales to Daisytek was \$7.5 million, \$10.7 million, and \$12.4 million in 1997, 1998, and 1999, respectively.

The Company's costs and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

In addition, included in the combined financial statements are service fee revenue and cost of service fee revenue which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements. Service fee revenue applicable to these contracts were \$230,000, \$467,000 and \$804,000 in 1997, 1998, and 1999, respectively.

In May 1999, the Company entered into an agreement to provide services to a certain company. An executive officer and a director of PFSweb serve on the Board of Directors of this company.

7. INCOME TAXES:

The Company's operations have been included in consolidated income tax returns filed by Daisytek. If Daisytek or other members of the consolidated group fail to make tax payments required by law, PFSweb would be liable for any shortfall. The provision for income taxes reflected in the combined statements of operations and the deferred tax assets reflected in the combined balance sheets have been prepared as computed on a separate return basis. The current income tax liabilities for the periods presented have been included in the payable to Daisytek.

A reconciliation of the difference between the expected income tax provision at the U.S. federal statutory corporate tax rate of 34%, and the Company's effective tax rate is as follows (in thousands):

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
Provision (benefit) computed at statutory rate.....	\$27	\$(15)	\$224
Impact of foreign taxation at different rate.....	1	6	16
State income taxes, net of federal tax impact.....	6	(2)	26
Expenses not deductible for tax purposes.....	8	5	11
Other.....	2	(1)	(4)
	---	---	---
Provision (benefit) for income taxes.....	\$44	\$(7)	\$273
	===	====	=====

The consolidated income (loss) before taxes, by domestic and foreign entities, is as follows (in thousands):

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
Domestic.....	\$ 67	\$(95)	\$407
Foreign.....	11	50	251]
	---	---	---
Total.....	\$ 78	\$(45)	\$658
	====	====	=====

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The provision (benefit) for income taxes is summarized as follows (in thousands):

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
Current			
Domestic.....	\$ 64	\$ 180	\$ 321
State.....	8	12	39
Foreign.....	13	23	105
Total current.....	85	215	465
Deferred			
Domestic.....	(41)	(208)	(175)
State.....	--	(14)	(17)
Total deferred.....	(41)	(222)	(192)
Total.....	\$ 44	\$ (7)	\$ 273

The components of the deferred tax asset (liability) as of March 31, 1998 and 1999 are as follows (in thousands):

	MARCH 31,	
	1998	1999
Deferred tax asset:		
Allowance for doubtful accounts.....	\$119	\$244
Inventory.....	49	70
Other.....	95	177
Total deferred tax asset.....	263	491
Deferred tax liability:		
Property and equipment.....	(2)	(38)
Total deferred liability.....	(2)	(38)
Deferred tax asset, net.....	\$261	\$453

8. COMMITMENTS AND CONTINGENCIES:

The Company leases facilities, and warehouse, office, transportation and other equipment under operating leases expiring in various years through fiscal year 2009. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced by other leases. Minimum future annual rental payments under non-cancelable operating leases having original terms in excess of one year are as follows (in thousands):

2000.....	\$ 1,254
2001.....	1,896
2002.....	1,896
2003.....	1,896
2004.....	1,846
Thereafter.....	2,250
Total.....	\$11,038

Total rental expense under operating leases approximated \$38,000, \$357,000 and \$805,000 for the fiscal years ended March 31, 1997, 1998 and 1999, respectively. As discussed in Note 10, the Company expects to enter into a master separation agreement with Daisytek upon the successful completion of this Offering which will result in additional operating lease obligations.

NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

The Company is involved in certain litigation arising in the ordinary course of business. Management believes that such litigation will be resolved without material effect on the Company's financial position or results of operations.

9. SEGMENT AND GEOGRAPHIC INFORMATION:

The Company operates one reportable segment as an international provider of transaction management services to both traditional and e-commerce companies. Geographic areas in which the Company operates include the United States, Europe (Belgium, Germany and The Netherlands) and Canada.

The following is geographic information by area. Transfers between geographic areas were immaterial.

	YEAR ENDED OR AT MARCH 31		
	1997	1998	1999
Revenues:			
United States.....	\$16,540	\$45,729	\$ 85,746
Europe.....	--	--	10,456
Canada.....	1,037	3,614	5,047
	-----	-----	-----
	\$17,577	\$49,343	\$101,249
	=====	=====	=====
Long-lived assets:			
United States.....		\$ 318	\$ 14,449
Europe.....		--	373
Canada.....		10	152
		-----	-----
		\$ 328	\$ 14,974
		=====	=====

10. SUBSEQUENT EVENTS:

On August 31, 1999, the Company entered into a lease for an approximately 442,000 square foot distribution facility in Memphis, Tennessee. The five year lease, with monthly lease payments totaling \$109,000, expires on August 31, 2004 and contains a renewal option for four years.

PFSweb, Inc. has authorized 6,000,000 shares of common stock for issuance under its 1999 stock option plans (the "Option Plans"). The Option Plans, which are currently administered by the Compensation Committee of the Board of Directors of PFSweb, Inc., provide for the granting of incentive awards in the form of stock options to directors, executive management, key employees, and outside consultants of PFSweb, Inc. and its subsidiaries. The right to purchase shares under the stock option agreements typically vest over a three year period. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued at fair market value. In July 1999, PFSweb, Inc. issued options to purchase 1,344,250 common shares at \$10.45. In August 1999, PFSweb, Inc. issued options to purchase 32,250 common shares at \$13.00. All of these options are subject to a three year vesting schedule, under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off of PFSweb, Inc. from Daisytek.

On September 21, 1999, Daisytek announced its plans to file this Offering. In conjunction with the successful completion of this Offering, PFSweb, Inc. has stated its intention to enter into agreements with Daisytek, including a tax sharing agreement, a transaction management services agreement, transition services agreement and a master separation agreement which are expected to have a significant impact on the financial position and results of operations of PFSweb, Inc.

PFSWEB

INTERIM CONDENSED COMBINED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

	MARCH 31, 1999	JUNE 30, 1999
	-----	-----
		(UNAUDITED)
CURRENT ASSETS:		
Cash.....	\$ 587	\$ 2,408
Accounts receivable, net of allowance for doubtful accounts of \$635 and \$638 at March 31, 1999 and June 30, 1999, respectively.....	22,190	22,729
Inventories, net.....	29,856	24,568
Prepaid expenses and other current assets.....	997	846
Deferred tax asset.....	453	420
	-----	-----
Total current assets.....	54,083	50,971
	-----	-----
PROPERTY AND EQUIPMENT, at cost:		
Furniture, fixtures and equipment.....	3,009	4,977
Leasehold improvements.....	32	121
	-----	-----
	3,041	5,098
Less -- Accumulated depreciation and amortization.....	(330)	(516)
	-----	-----
Net property and equipment.....	2,711	4,582
OTHER ASSETS.....	12,263	12,414
	-----	-----
Total assets.....	\$69,057	\$67,967
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable.....	\$38,329	\$29,403
Accrued expenses.....	1,118	749
	-----	-----
Total current liabilities.....	39,447	30,152
	-----	-----
PAYABLE TO DAISYTEK.....	28,889	37,349
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Daisytek's net equity investment.....	852	654
Accumulated other comprehensive loss.....	(131)	(188)
	-----	-----
Total shareholder's equity.....	721	466
	-----	-----
Total liabilities and shareholder's equity.....	\$69,057	\$67,967
	=====	=====

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

PFSWEB

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

	THREE MONTHS ENDED JUNE 30,	
	1998	1999
REVENUES:		
Product revenue.....	\$20,424	\$32,620
Service fee revenue.....	1,004	3,191
Total revenues.....	21,428	35,811
COSTS OF REVENUES:		
Cost of product revenue.....	19,345	30,793
Cost of service fee revenue.....	834	2,231
Total costs of revenues.....	20,179	33,024
Gross profit.....	1,249	2,787
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,154	2,788
Income (loss) from operations.....	95	(1)
INTEREST EXPENSE, net.....	53	326
Income (loss) before income taxes.....	42	(327)
PROVISION (BENEFIT) FOR INCOME TAXES.....	17	(129)
NET INCOME (LOSS).....	\$ 25	\$ (198)
NET INCOME (LOSS) PER SHARE:		
Basic and diluted.....	\$ 0.00	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and diluted.....	14,305	14,305

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

PFSWEB

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

	THREE MONTHS ENDED JUNE 30,	
	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss).....	\$ 25	\$ (198)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization.....	35	216
Provision for doubtful accounts.....	79	5
Deferred income tax benefit.....	(50)	(15)
Changes in operating assets and liabilities:		
Accounts receivable.....	(2,210)	(565)
Inventories, net.....	(665)	5,264
Prepaid expenses and other current assets.....	--	200
Trade accounts payable and accrued expenses.....	1,496	(9,312)
Net cash used in operating activities.....	(1,290)	(4,405)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment.....	(339)	(2,077)
Increase in other assets.....	(3,980)	(163)
Net cash used in investing activities.....	(4,319)	(2,240)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in payable to Daisytek, net.....	5,565	8,460
Net cash provided by financing activities.....	5,565	8,460
EFFECT OF EXCHANGE RATES ON CASH.....	(44)	6
NET (DECREASE) INCREASE IN CASH.....	(88)	1,821
CASH, beginning of period.....	113	587
CASH, end of period.....	\$ 25	\$ 2,408

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

PFSWEB

NOTES TO UNAUDITED INTERIM
CONDENSED COMBINED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

PFSweb (the "Company") reflects the business operations of certain wholly-owned subsidiaries of Daisytek International Corporation ("Daisytek"). PFSweb's business unit was formed in 1991 and expanded in 1996 under the name "Priority Fulfillment Services." The Company is currently wholly-owned by Daisytek. Accordingly, Daisytek exerts substantial influence over, and has the ability to direct all operations of, the Company. The Company is an international provider of transaction management services to both traditional and e-commerce companies and sells products and services primarily in the United States, Canada and Europe. The Company offers such services as order management, customer care, billing, credit management and collection, information management, and distribution. The Company provides its services under fee-based contracts (where service fee revenue is based on either the sales value of the products or service activity volume) and under master distributor agreements (where the Company takes title to and resells the product).

In June 1999, Daisytek created a separate wholly-owned subsidiary and PFSweb, Inc., a Delaware corporation, to become a holding company for PFSweb upon completion of an initial public offering (the "Offering"). Daisytek has contributed \$20,000 for 14,305,000 shares of PFSweb, Inc. Simultaneous with the effective date of the Offering, the assets, liabilities and equity which currently comprise PFSweb will be contributed to PFSweb, Inc. No separate financial statements of PFSweb, Inc. have been provided because it is a holding company and they only reflect cash and equity of \$20,000.

Daisytek plans to divest PFSweb, in two stages. The first stage involves the sale and issuance of common stock of PFSweb, Inc. in this Offering. The second stage, planned to occur in the year 2000, involves Daisytek distributing to holders of its common stock all of its interest in PFSweb, Inc. through a spin-off transaction in which the shares of PFSweb, Inc. would be distributed to Daisytek common stockholders on a pro-rata basis. Daisytek, however, is not obligated to effect the spin-off through the distribution of its interest and the Company cannot provide assurance as to whether or when it will occur.

The interim condensed combined financial statements as of June 30, 1999, and for the three months ended June 30, 1998 and 1999, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and are unaudited. The interim condensed combined financial statements are presented on a carve-out basis and reflect the combined results of operations and assets and liabilities of PFSweb. For all periods presented, certain expenses reflected in the interim condensed combined financial statements include an allocation of certain Daisytek corporate expenses and infrastructure costs. Management believes that the method used to allocate expenses is reasonable, although the cost of services could be higher if obtained from other sources. In addition, certain service fee revenue and cost of service fee revenue have been reflected by PFSweb for services subcontracted to PFSweb by Daisytek. The service fee revenue, cost of service fee revenue and allocated expenses have been reflected on bases that Daisytek and PFSweb consider to be a reasonable reflection of the services provided and revenue earned by PFSweb and the utilization of services provided by Daisytek and the benefit received by PFSweb. However, an allocation of the salaries and benefits of Daisytek corporate executives have not been allocated or reflected in the interim condensed combined financial statements of PFSweb because management believes that the service provided by these executives were related to corporate level activities. The financial information included herein may not reflect the combined financial position, operating results, changes in Daisytek's net investment and cash flows of PFSweb in the future or what it would have been had PFSweb been a separate, stand-alone entity during the periods presented.

NOTES TO UNAUDITED INTERIM
CONDENSED COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

In the opinion of management, the unaudited interim condensed combined financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of June 30, 1999, its results of operations and its results of cash flows for the three months ended June 30, 1998 and 1999. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

The unaudited interim condensed combined financial statements should be read in conjunction with the audited combined financial statements and accompanying notes for the years ended March 31, 1997, 1998 and 1999 included herein. Accounting policies used in the preparation of the unaudited interim condensed combined financial statements are consistent in all material respects with the accounting policies described in the notes to audited combined financial statements.

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

	THREE MONTHS ENDED JUNE 30,	
	1998	1999
	-----	-----
Net income (loss).....	\$ 25	\$(198)
Comprehensive income adjustments:		
Foreign currency translation adjustment.....	(19)	(57)
	-----	-----
Comprehensive income (loss).....	\$ 6	\$(255)
	=====	=====

3. TRANSACTIONS WITH DAISYTEK AND OTHER RELATED PARTIES:

The Company's product revenue from sales to Daisytek was \$3.6 million and \$4.1 million for the three months ended June 30, 1998 and 1999, respectively.

The Company's cost and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis.

In addition, included in the combined financial statements are service fee revenues and cost of service fee revenue which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements. Service fee revenues applicable to these contracts were \$146,000 and \$186,000 for the three months ended June 30, 1998 and 1999, respectively.

In May 1999, the Company entered into an agreement to provide services to a certain company. An executive officer and director of PFSweb serve on the Board of Directors of this company.

PFSweb, along with several other Daisytek subsidiaries, has guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). As of June 30, 1999, Daisytek had borrowed \$43.0 million and has a maximum borrowing availability of \$85.0 million under the Facility, leaving approximately \$42.0 million available under the Facility. The Facility, and PFSweb's guarantee thereon, expires on December 31, 2000.

NOTES TO UNAUDITED INTERIM
CONDENSED COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

4. NET INCOME (LOSS) PER COMMON SHARE:

The Company computed net income (loss) per share in accordance with SFAS No. 128 "Earnings Per Share." Basic and diluted net income (loss) per common share attributable to PFSweb common stock was determined based on net income (loss) divided by the 14,305,000 shares of PFSweb, Inc. outstanding prior to the Offering. For purposes of the net income (loss) per common share calculation, the shares outstanding prior to the Offering are treated as outstanding for all periods presented. There were no potentially dilutive securities outstanding during the periods presented.

5. SUBSEQUENT EVENTS:

On August 31, 1999, the Company entered into a lease for an approximately 442,000 square foot distribution facility in Memphis, Tennessee. The five year lease, with monthly lease payments totaling approximately \$109,000, expires on August 31, 2004 and contains a renewal option for four years.

PFSweb, Inc. has authorized 6,000,000 shares of common stock for issuance under its 1999 stock option plans (the "Option Plans"). The Option Plans, which are currently administered by the Compensation Committee of the Board of Directors of PFSweb, Inc. provide for the granting of incentive awards in the form of stock options to directors, executive management, key employees, and outside consultants of PFSweb, Inc. and its subsidiaries. The right to purchase shares under the stock option agreements typically vest over a three year period. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued at fair market value. In July 1999, PFSweb, Inc. issued options to purchase 1,344,250 common shares at \$10.45. In August 1999, PFSweb, Inc. issued options to purchase 32,250 common shares at \$13.00. All of these options are subject to a three year vesting schedule, under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off of PFSweb, Inc. from Daisytek.

On September 21, 1999, Daisytek announced its plans to file this Offering. In conjunction with the successful completion of this Offering, PFSweb, Inc. has stated its intention to enter into agreements with Daisytek, including a tax sharing agreement, a transaction management services agreement, transition services agreement and a master separation agreement which are expected to have a significant impact on the financial position and results of operations of PFSweb, Inc.

PFSWEB, INC.

PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED BALANCE SHEETS (UNAUDITED)

JUNE 30, 1999

(IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	SUPPLEMENTAL PRO FORMA ADJUSTMENTS	SUPPLEMENTAL PRO FORMA
CURRENT ASSETS:					
Cash.....	\$ 2,408	\$ 20(10)	\$ 2,428	\$ 7,660(3),(4)	\$10,088
Accounts receivable, net.....	22,729	--	22,729	(17,672)(3)	5,057
Inventories, net.....	24,568	--	24,568	(24,568)(3)	--
Prepaid expenses and other current assets.....	846	--	846	--	846
Deferred tax asset.....	420	--	420	--	420
Total current assets.....	50,971	20	50,991	(34,580)	16,411
PROPERTY AND EQUIPMENT:					
Furniture, fixtures and equipment.....	4,977	--	4,977	5,873(4)	10,850
Leasehold improvements.....	121	--	121	175(4)	296
	5,098	--	5,098	6,048	11,146
Less -- Accumulated depreciation and amortization.....	(516)	--	(516)	--	(516)
Net property and equipment.....	4,582	--	4,582	6,048	10,630
OTHER ASSETS.....	12,414	--	12,414	--	12,414
Total assets.....	\$67,967	\$ 20	\$67,987	\$(28,532)	\$39,455
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Trade accounts payable.....	\$29,403	\$ --	\$29,403	\$(26,984)(3)	\$ 2,419
Accrued expenses.....	749	--	749	62	811
Total current liabilities.....	30,152	--	30,152	(26,922)	3,230
PAYABLE TO DAISYTEK.....	37,349	(35,479)(2)	1,870	(1,870)	--
CAPITAL LEASE OBLIGATIONS.....	--	--	--	260	260
SHAREHOLDERS' EQUITY:					
Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued and outstanding.....	--	--	--	--	--
Common stock, no par value, 40,000,000 shares authorized, 17,405,000 shares issued and outstanding (pro forma and supplemental pro forma).....	--	--	--	--	--
Additional paid-in capital....	--	36,153(1),(2),(10)	36,153	--	36,153
Daisytek's net equity investment.....	654	(654)(1),(2)	--	--	--
Accumulated other comprehensive loss.....	(188)	--	(188)	--	(188)
Total shareholders' equity.....	466	35,499	35,965	--	35,965
Total liabilities and shareholders' equity...	\$67,967	\$ 20	\$67,987	\$(28,532)	\$39,455

The accompanying notes are an integral part of these unaudited pro forma and supplemental pro forma combined statements.

PFSWEB, INC.

PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED
 STATEMENTS OF OPERATIONS (UNAUDITED)
 FOR THE YEAR ENDED MARCH 31, 1999
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	SUPPLEMENTAL PRO FORMA ADJUSTMENTS	SUPPLEMENTAL PRO FORMA
REVENUES:					
Product revenue.....	\$ 93,702	\$ --	\$ 93,702	\$(93,702)(6)	\$ --
Service fee revenue....	7,547	--	7,547	23,963(6),(7)	31,510
Total revenues.....	101,249	--	101,249	(69,739)	31,510
COSTS OF REVENUES:					
Cost of product revenue.....	88,335	--	88,335	(88,335)(6)	--
Cost of service fee revenue.....	5,323	--	5,323	13,203(6),(7)	18,526
Total costs of revenues.....	93,658	--	93,658	(75,132)	18,526
Gross profit.....	7,591	--	7,591	5,393	12,984
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	6,559	2,309(5)	8,868	(236)(6),(7)	8,632
Income (loss) from operations.....	1,032	(2,309)	(1,277)	5,629	4,352
INTEREST EXPENSE (INCOME), net.....	374	(1,039)(2)	(665)	374	(291)
Income before income taxes.....	658	(1,270)	(612)	5,255	4,643
PROVISION (BENEFIT) FOR INCOME TAXES(8).....	273	(457)	(184)	1,884	1,700
NET INCOME (LOSS).....	\$ 385	\$ (813)	\$ (428)	\$ 3,371	\$ 2,943
NET INCOME (LOSS) PER COMMON SHARE(9):					
Basic and diluted.....	\$ 0.03	\$ (0.05)	\$ (0.02)	\$ 0.19	\$ 0.17
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:					
Basic and diluted.....	14,305	17,405	17,405	17,405	17,405

The accompanying notes are an integral part of these unaudited pro forma and supplemental pro forma combined statements.

PFSWEB, INC.

PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED
 STATEMENTS OF OPERATIONS (UNAUDITED)
 FOR THE THREE MONTHS ENDED JUNE 30, 1999
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	SUPPLEMENTAL PRO FORMA ADJUSTMENTS	SUPPLEMENTAL PRO FORMA
REVENUES:					
Product revenue.....	\$32,620	\$ --	\$32,620	\$(32,620)(6)	\$ --
Service fee revenue.....	3,191	--	3,191	6,059(6),(7)	9,250
Total revenues.....	35,811	--	35,811	(26,561)	9,250
COSTS OF REVENUES:					
Cost of product revenue.....	30,793	--	30,793	(30,793)	--
Cost of service fee revenue.....	2,231	--	2,231	3,596(6),(7)	5,827
Total costs of revenues.....	33,024	--	33,024	(27,197)	5,827
Gross profit.....	2,787	--	2,787	636	3,423
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,788	596(5)	3,384	(268)(6),(7)	3,116
Income (loss) from operations.....	(1)	(596)	(597)	904	307
INTEREST EXPENSE (INCOME), net.....	326	(422)(2)	(96)	(45)(3)	(141)
Income (loss) before income taxes.....	(327)	(174)	(501)	949	448
PROVISION (BENEFIT) FOR INCOME TAXES(8).....	(129)	(37)	(166)	343	177
NET INCOME (LOSS).....	\$ (198)	\$ (137)	\$ (335)	\$ 606	\$ 271
NET INCOME (LOSS) PER COMMON SHARE(9):					
Basic and diluted.....	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ 0.04	\$ 0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:					
Basic and diluted.....	14,305	17,405	17,405	17,405	17,405

The accompanying notes are an integral part of these unaudited pro forma and supplemental pro forma combined statements.

PFSWEB, INC.

NOTES TO PRO FORMA AND SUPPLEMENTAL PRO FORMA
COMBINED FINANCIAL STATEMENTS
(UNAUDITED)

PFSweb's historical financial statements reflect its operations and client agreements prior to the following transactions. As of October 1, 1999, PFSweb has restructured its arrangements with IBM, one of its key clients, so that the transaction management services it provides for IBM will no longer include purchasing and reselling IBM product inventory, but instead will be reflected as service fees. In addition, upon completion of this offering, PFSweb will enter into a transaction management services agreement with Daisytek and begin recording service fee revenue for this agreement. PFSweb's historical financial statements, therefore, may not provide a meaningful basis for analyzing its business in the future. To assist in evaluating PFSweb's ongoing business, PFSweb has provided the following pro forma and supplemental pro forma financial information.

The column labeled "pro forma" shows how PFSweb's historical financial data would reflect:

- the contribution from Daisytek of \$20,000 for 14,305,000 shares of PFSweb, Inc. common stock;
- the reclassification of Daisytek's net investment as common stock and additional paid-in-capital;
- the issuance of 3,100,000 shares of common stock in this offering and the anticipated application of the net proceeds; and
- the incremental cost PFSweb expects to incur as a stand-alone publicly traded company.

The column labeled "supplemental pro forma" shows how the pro forma financial data would reflect what PFSweb's results would have been:

- under its prior IBM agreements if PFSweb had received service fees instead of purchasing IBM products and reselling them;
- if it had performed transaction management services and recorded service fee revenue for its business with Daisytek under its new agreement; and
- if PFSweb had acquired certain assets and liabilities from Daisytek as part of its separation from Daisytek.

The unaudited pro forma and supplemental pro forma combined statements of operations of PFSweb, Inc. for the fiscal year ended March 31, 1999 and the three months ended June 30, 1999 have been prepared based on the combined financial statements and unaudited condensed interim combined financial statements and related notes presented elsewhere in this prospectus. The unaudited pro forma and supplemental pro forma combined statements of operations and the unaudited pro forma and supplemental pro forma combined balance sheet have been prepared as if the transactions and events described in the following paragraphs had occurred as of the beginning of the respective periods presented, and as of June 30, 1999, respectively.

PFSweb based the following pro forma adjustments on available information and certain estimates and assumptions. Therefore, it is likely that the actual adjustments will differ from the pro forma and supplemental pro forma adjustments. PFSweb believes that such assumptions provide a reasonable basis for presenting all of the significant effects of the following transactions and events and that the pro forma and supplemental pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma and supplemental pro forma combined financial statements.

NOTES TO PRO FORMA AND SUPPLEMENTAL PRO FORMA
COMBINED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

- (1) Reflects the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital.
- (2) Reflects the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of \$13.00 per share, and the application of the estimated \$35.5 million net proceeds to reduce the payable to Daisytek. The pro forma adjustments reflect the reduction of interest expense associated with our payable to Daisytek. See "Capitalization" and "Use of Proceeds" elsewhere in this prospectus.
- (3) Reflects PFSweb's restructuring of its agreements with IBM as of October 1, 1999. Under PFSweb's prior agreements, its services for IBM included serving as a master distributor and purchasing and reselling the product inventory to IBM customers. Under PFSweb's new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue) and PFSweb will continue to perform most of the other transaction management services it had provided previously. As part of these new IBM agreements, PFSweb will receive service fees from Daisytek for the transaction management services that it provides. In connection with the restructuring of PFSweb IBM agreements, as of October 1, 1999, it transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that it held under its prior agreements. In consideration of this transfer, Daisytek will pay to PFSweb the net value of these assets and liabilities (approximately \$15.3 million as of June 30, 1999). From this amount, PFSweb will repay to Daisytek the remaining balance of the payable to Daisytek (approximately \$1.9 million as of June 30, 1999). The pro forma adjustments reflect the reduction of interest expense associated with PFSweb's payable to Daisytek, but do not reflect investment interest income generated, if any, by excess cash (proceeds in excess of payable to Daisytek) which will be temporarily invested until used to fund expected growth in the business.
- (4) Reflects the transfer upon completion of this offering from Daisytek of all of the fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb and PFSweb will transfer to Daisytek \$5.7 million in cash and assume \$0.3 million of certain capital lease obligations, as well as the operating lease obligations, related to these assets.
- (5) Reflects certain estimated incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs.
- (6) Reflects the conversion of historically recorded product revenue and associated cost of product revenue to service fee revenue and related cost of service fee revenue associated with the adjustments discussed in Note (3) above. The service fee revenue impact of this conversion is an incremental \$5.5 million for fiscal 1999 and \$1.8 million for the three months ended June 30, 1999. Additionally, a reduction of service fee revenue for fiscal 1999 and for the three months ended June 30, 1999 of \$1.1 million and \$0.4 million, respectively, is associated with Daisytek providing certain services which PFSweb previously provided to IBM. In addition, certain activities that have historically been classified as selling, general and administrative expenses will be directly related to these contracts and have been reclassified to cost of service fee revenue. These amounts are

NOTES TO PRO FORMA AND SUPPLEMENTAL PRO FORMA
COMBINED FINANCIAL STATEMENTS -- (CONTINUED)
(UNAUDITED)

approximately \$1.5 million for fiscal 1999 and \$0.7 million for the three months ended June 30, 1999.

- (7) Reflects entering into a transaction management services agreement with Daisytek upon completion of this offering under which PFSweb will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business. The supplemental pro forma adjustments include service fee revenues of approximately \$19.7 million for fiscal 1999 and \$4.6 million for the three months ended June 30, 1999. In addition, this reflects the estimated operating costs associated with the performance of this transaction management services agreement and includes (i) operating costs associated with the Memphis distribution center, including the salaries of management and personnel, warehousing and distribution costs, and depreciation expenses and (ii) operating costs associated with the information technology function, including the salaries of management and personnel, telephone and lease costs, and depreciation expense. These costs are approximately \$11.6 million for fiscal 1999 and \$2.9 million for the three months ended June 30, 1999. This also reflects certain estimated additional expenses associated with performing services required in connection with the transaction management services agreement of approximately \$1.3 million for fiscal 1999 and \$0.4 million for the three months ended June 30, 1999. This adjustment does not consider existing selling, general and administrative infrastructure costs which will support this business but which are already reflected as historical costs.
- (8) Reflects income taxes determined in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." The pro forma adjustments to the provision (benefit) for taxes reflect income taxes as if these transactions and events had occurred as of the beginning of the respective period presented. These pro forma effective income tax rates may not be indicative of performance in future periods.
- (9) Reflects basic pro forma net income per share calculated based on common stock outstanding of 17,405,000 shares upon completion of this offering. It does not include up to 465,000 shares of common stock which the underwriters have the option to exercise solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, basic and diluted pro forma net loss per share would be (\$0.02) and basic and diluted supplemental pro forma net loss per share would be \$0.16 for the fiscal year ended March 31, 1999. Basic and diluted pro forma net loss per share would be (\$0.02) and basic and diluted supplemental pro forma net income per share would be \$0.02 for the three months ended June 30, 1999.
- (10) Reflects the contribution from Daisytek of \$20,000 for 14,305,000 shares of PFSweb's common stock.

3,100,000 SHARES

PFS LOGO

COMMON STOCK

PROSPECTUS

HAMBRECHT & QUIST

DAIN RAUSCHER WESSELS
A DIVISION OF DAIN RAUSCHER INCORPORATED

WILLIAM BLAIR & COMPANY

JEFFERIES & COMPANY, INC.

, 1999

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. We are offering to sell and seeking offers to buy shares of PFSweb, Inc. common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the PFSweb, Inc. common stock.

Through and including , 1999 (the 25th day after commencement of the offering), all dealers effecting transactions in the common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable in connection with the sale and distribution of the securities being registered. All amounts are estimated except the Securities and Exchange Commission registration fee and the registration fee.

ITEM - - - - -	AMOUNT -----
Securities and Exchange Commission registration fee.....	\$ 13,875
NASD registration fee.....	5,500
Nasdaq Stock Market listing fees.....	
Blue Sky qualification fees and expenses.....	
Legal fees and expenses.....	
Accounting fees and expenses.....	
Transfer agent and registrar fees.....	
Printing and engraving expenses.....	
Miscellaneous expenses.....	

Total.....	\$ =====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

PFSweb is incorporated under the laws of the State of Delaware. Section 145 ("Section 145") of the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (the "General Corporation Law"), inter alia, provides that a Delaware corporation may indemnify any persons who were, are or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was illegal.

Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against any liability asserted against him and incurred by him in any such capacity, arising out of his status as such, whether or not the corporation would otherwise have the power to indemnify him under Section 145.

PFSweb's Amended and Restated Certificate of Incorporation and Bylaws provide for the indemnification of officers and directors to the fullest extent permitted by the General Corporation Law.

PFSweb anticipates that all of its directors and officers will be covered by insurance policies against certain liabilities for actions taken in their capacities as such, including liabilities under the Securities Act of 1933, as amended.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

In connection with its incorporation and organization, PFSweb issued 14,305,000 shares of common stock to Daisytek for an aggregate of \$20,000. PFSweb believes that this issuance was exempt from registration under Section 4(2) of the Securities Act as a transaction not involving any public offering.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

EXHIBIT NUMBER -----	DESCRIPTION -----
1.1*	-- Form of Underwriting Agreement
2.1	-- Form of Master Separation Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.2	-- Form of Initial Public Offering and Distribution Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.3	-- Form of Registration Rights Agreement by and among Daisytek International Corporation, Daisytek, Incorporated and PFSweb, Inc.
2.4*	-- Form of Tax Sharing Agreement between Daisytek International Corporation and PFSweb, Inc.
2.5	-- Form of Transition Services Agreement between Daisytek Incorporated and PFSweb, Inc.
2.6	-- Form of Transaction Management Services Agreement between Daisytek, Incorporated and Priority Fulfillment Services, Inc.
3.1	-- Amended and Restated Certificate of Incorporation
3.2	-- Bylaws
4.1*	-- Form of Common Stock certificate of PFSweb, Inc.
5.1*	-- Opinion of Wolff & Samson, P.A.
10.1	-- Non-Employee Director Stock Option and Retainer Plan
10.2	-- Employee Stock Option Plan
10.3*	-- Employee Award Plan
10.4	-- Industrial Lease Agreement between Shelby Drive Corporation and Priority Fulfillment Services, Inc.
10.5	-- Lease Contract between Transports Weerts and Priority Fulfillment Services Europe B.V.
21.1	-- Subsidiaries of PFSweb, Inc.
23.1	-- Consent of Arthur Andersen LLP
23.2*	-- Consent of Wolff & Samson, P.A. (included in Exhibit 5.1)
24.1	-- Power of Attorney (contained on Page II-4)
27.1	-- Financial Data Schedule

* To be filed by amendment.

(b) Financial Statement Schedule.

Schedule II -- Valuation and Qualifying Accounts

Schedules have been omitted because the information required to be set forth therein is not applicable or is immaterial.

ITEM 17. UNDERTAKINGS

The Registrant hereby undertakes to provide the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as the indemnification for liabilities arising under the Securities Act of 1933 may be permitted as to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the Registrant has been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payments by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and

(2) for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Plano, State of Texas, on September 23, 1999.

/s/ MARK C. LAYTON

 Mark C. Layton
 President, Chief Executive Officer
 and Director

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas J. Madden and Harvey H. Achatz, and each of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective statements), and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This Power of Attorney may be signed in several counterparts.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons on September 23, 1999 in the capacities indicated.

SIGNATURE -----	TITLE -----
/s/ MARK C. LAYTON ----- Mark C. Layton	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ THOMAS J. MADDEN ----- Thomas J. Madden	Executive Vice President and Chief Financial and Accounting Officer (Principal Financial and Accounting Officer)
/s/ CHRISTOPHER YATES ----- Christopher Yates	Director
/s/ JAMES R. POWELL ----- James R. Powell	Director
/s/ TIMOTHY M. MURRAY ----- Timothy M. Murray	Director
/s/ JAMES F. REILLY ----- James F. Reilly	Director
/s/ PETER P. J. VIKANIS ----- Peter P. J. Vikanis	Director

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daisytek International Corporation and PFSweb, Inc.:

We have audited in accordance with generally accepted auditing standards, the combined financial statements of PFSweb included in this registration statement and have issued our report thereon dated September 22, 1999. Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. Schedule II of this registration statement is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic combined financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic combined financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Dallas, Texas,
September 22, 1999

S-1

SCHEDULE II
PFSWEB

VALUATION AND QUALIFYING ACCOUNTS
FOR THE THREE YEARS ENDED MARCH 31, 1999
(AMOUNTS IN THOUSANDS)

		ADDITIONS			
BALANCE AT BEGINNING OF PERIOD		CHARGES TO COST AND EXPENSES	CHARGES TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
Fiscal Year Ended March 31, 1997:					
Allowance for doubtful accounts.....	\$ --	122	--	--	\$122
Fiscal Year Ended March 31, 1998:					
Allowance for doubtful accounts.....	\$122	299	--	(103)	\$318
Fiscal Year Ended March 31, 1999:					
Allowance for doubtful accounts.....	\$318	344	--	(27)	\$635

INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
1.1*	-- Form of Underwriting Agreement
2.1	-- Form of Master Separation Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.2	-- Form of Initial Public Offering and Distribution Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.3	-- Form of Registration Rights Agreement by and among Daisytek International Corporation, Daisytek, Incorporated and PFSweb, Inc.
2.4*	-- Form of Tax Sharing Agreement between Daisytek International Corporation and PFSweb, Inc.
2.5	-- Form of Transition Services Agreement between Daisytek Incorporated and PFSweb, Inc.
2.6	-- Form of Transaction Management Services Agreement between Daisytek, Incorporated and Priority Fulfillment Services, Inc.
3.1	-- Amended and Restated Certificate of Incorporation
3.2	-- Bylaws
4.1*	-- Form of Common Stock certificate of PFSweb, Inc.
5.1*	-- Opinion of Wolff & Samson, P.A.
10.1	-- Non-Employee Director Stock Option and Retainer Plan
10.2	-- Employee Stock Option Plan
10.3*	-- Employee Award Plan
10.4	-- Industrial Lease Agreement between Shelby Drive Corporation and Priority Fulfillment Services, Inc.
10.5	-- Lease Contract between Transports Weerts and Priority Fulfillment Services Europe B.V.
21.1	-- Subsidiaries of PFSweb, Inc.
23.1	-- Consent of Arthur Andersen LLP
23.2*	-- Consent of Wolff & Samson, P.A. (included in Exhibit 5.1)
24.1	-- Power of Attorney (contained on Page II-4)
27.1	-- Financial Data Schedule

 * To be filed by amendment.

MASTER SEPARATION AGREEMENT

dated as of

_____, 1999

among

DAISYTEK INTERNATIONAL CORPORATION,

DAISYTEK, INCORPORATED,

PRIORITY FULFILLMENT SERVICES, INC.

and

PFSWEB, INC.

MASTER SEPARATION AGREEMENT

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

RECITALS

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

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

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

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

WHEREAS, Daisytek and PFSweb currently contemplate that, concurrently with the contribution and assumption of assets and liabilities, PFSweb will consummate an initial public offering (the "IPO") of an amount of its Common Stock (the "PFSweb Common Stock") that will reduce Daisytek's ownership of PFSweb to not less than 80%; and

WHEREAS, Daisytek contemplates that, within 12 months following the IPO Closing Date, Daisytek will distribute to Daisytek International all of the shares of PFSweb common stock owned by Daisytek, and Daisytek International will, in turn, distribute such shares to the holders of its common stock, \$.01 par value, by means of a pro rata distribution, (the "Distribution"); and

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

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

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

ARTICLE 1

DEFINITIONS

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

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

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

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

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

"Commission" means the Securities and Exchange Commission.

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

"Contribution Date" means the IPO Closing Date.

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

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

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

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

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

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

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

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

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

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

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

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

"PFS Business" means the business conducted by PFS and the PFS Subsidiaries at any time on or before the Contribution Date, including (i) all business operations of PFSweb described in the IPO Prospectus, (ii) all business operations initiated or acquired by PFS or any of the PFS Subsidiaries after the date of the IPO Prospectus and (iii) all business operations that were conducted at any time in the past by PFS or any of the PFS Subsidiaries or by any predecessor

thereto (including, without limitation, Working Capital of America, Inc.) whether or not discontinued or disposed of prior to the date of the IPO Prospectus.

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

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

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

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

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

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

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

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

ARTICLE 2

CONTRIBUTION AND ASSUMPTION

Section 2.01. Contribution of PFS Assets.

(a) On the Contribution Date, Daisytek shall contribute and transfer to PFSweb, all of Daisytek's right, title and interest in, to and under the following (collectively, the "PFS Assets"): (i) the PFS Memphis Assets, (ii) all of the issued and outstanding shares of capital stock or other equity interests in each of the PFS Subsidiaries, whereupon each of the PFS Subsidiaries shall become wholly-owned Subsidiaries of PFSweb and (iii) the sole outstanding limited liability company membership interest (the "Membership Interest") in PFS Texas, L.L.C., a Delaware limited liability company. PFSweb acknowledges and agrees that, except as set forth herein or in

any of the Ancillary Agreements, the foregoing transfers are made "AS IS WHERE IS" and Daisytek has not made nor will make any warranty, express or implied, including without limitation any warranty of merchantability of fitness for a particular purpose, with respect to any PFS Asset.

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

Section 2.02. Assumption of Liabilities; Payment to Daisytek. Effective as of the Contribution Date, PFSweb and/or the PFS Subsidiaries, as directed by PFSweb, shall assume and on a timely basis shall pay, perform, satisfy and discharge in accordance with their terms the PFS Liabilities. On the IPO Closing Date, or as soon thereafter as practicable, PFSweb shall pay to Daisytek (i) the net fair market value of the PFS Assets as set forth in the Contribution Schedule and (ii) the then outstanding balance, both principal and interest, of the PFS Intercompany Obligation.

Section 2.03. Methods of Transfer and Assumption.

(a) The parties intend to complete the transfer of all PFS Assets and the assumption of all PFS Liabilities effective as of the Contribution Date; provided, however, that to the extent any such transfers or assumptions are not completed as of the Contribution Date, each party shall take all actions reasonably necessary or appropriate to complete such transactions as promptly thereafter as possible. In addition, the parties acknowledge that there may exist (i) PFS Assets or other assets that the parties discover were, by mistake or omission, transferred to PFSweb or retained by Daisytek, respectively, or (ii) PFS Liabilities or other liabilities that the parties discover were, by mistake or omission, assumed by PFSweb or not assumed by PFSweb, respectively. The parties shall, between the Contribution Date and the Distribution Date, cooperate in good faith to effect the transfer or re-transfer of such PFS Assets or other assets, and/or the assumption or re-assumption of such PFS Liabilities or other liabilities, to or by the appropriate party and shall not use such mistake or omission to alter the original intent of the parties hereto with respect to the PFS Assets to be transferred to or PFS Liabilities to be assumed by PFSweb. Each party shall reimburse the other or make such other financial or other adjustments as may be equitable to remedy any mistakes or omissions relating to any of the PFS Assets transferred hereby or any of the PFS Liabilities assumed hereby.

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

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

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

ARTICLE 3

ANCILLARY AGREEMENTS

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

ARTICLE 4

INDEMNIFICATION

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

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

Section 4.03. Indemnification Procedures.

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

(b) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably acceptable to the Indemnitee), may elect to defend any Third-Party Claim. If an Indemnifying Party elects to defend a Third-Party Claim, then, within ten Business Days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third Party claim so requires), such Indemnifying Party shall notify the Indemnitee of its intent to do so, and such Indemnitee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party shall pay such Indemnitee's reasonable out-of-pocket expenses incurred in connection with such cooperation. Such Indemnifying Party shall keep the Indemnitee reasonably informed as to the status of the defense

of such Third-Party Claim. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party shall not be liable to such Indemnitee under this Section for any attorneys' fees or other expenses subsequently incurred by such Indemnitee in connection with the defense thereof; provided, however, that such Indemnitee shall have the right to employ one law firm as counsel ("Separate Counsel"), to represent such Indemnitee in any action or group of related actions (which firm or firms shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnitee's reasonable judgment at any time, either a conflict of interest between such Indemnitee and such Indemnifying Party exists in respect of such claim, or there may be defenses available to such Indemnitee which are significantly different from or in addition to those available to such Indemnifying Party and the representation of both parties by the same counsel would, in the reasonable judgment of the Indemnitee, be inappropriate, and in that event (i) the reasonable fees and expenses of such Separate Counsel shall be paid by such Indemnifying Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one Separate Counsel with respect to any Third-Party Claim (even if against multiple Indemnitees)) and (ii) each of such Indemnifying Party and such Indemnitee shall have the right to conduct its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third-Party Claim, or fails to notify an Indemnitee of its election as provided in this Section within the period of ten Business Days described above, the Indemnitee may defend, compromise, and settle such Third-Party Claim and shall be entitled to indemnification hereunder (to the extent permitted hereunder); provided, however, that no such Indemnitee may compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnitee, (i) settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnitee of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that would be reasonably likely to have a material adverse effect on the Indemnitee.

Section 4.04. Certain Limitations.

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

Indemnifying Party in respect of such indemnifiable loss plus the amount received from the third party in respect thereof, less (ii) the full amount of such indemnifiable loss or other liability.

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

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

ARTICLE 5

ACCESS TO INFORMATION

Section 5.01 Restrictions on Disclosure of Information.

(a) Without limiting any rights or obligations under any other agreement between or among the parties hereto and/or any of their respective Affiliates relating to confidentiality, for a period of three years following the Contribution Date, each of the parties hereto agrees that it shall not, and shall not permit any of its Affiliates or Representatives to, disclose any Confidential Information to any Person, other than to such Affiliates or Representatives on a need-to-know basis in connection with the purpose for which the Confidential Information was originally disclosed. Notwithstanding the foregoing, each of the parties hereto and its respective Affiliates and Representatives may disclose such Confidential Information, and such Information shall no longer be deemed Confidential Information, to the extent that such party can demonstrate that such Confidential Information is or was (i) available to such party outside the context of the Prior Relationship on a nonconfidential basis prior to its disclosure by the other party, (ii) in the public domain other than by the breach of this Agreement or by breach of any other agreement between or among the parties hereto and/or any of their respective Affiliates relating to confidentiality, or

(iii) lawfully acquired outside the context of the Prior Relationship on a nonconfidential basis or independently developed by, or on behalf of, such party by Persons who do not have access to, or descriptions of, any such Confidential Information. Additionally, notwithstanding anything to the contrary herein, any Information provided by Daisytek to PFSweb or by PFSweb to Daisytek shall, except as otherwise set forth in any of the Ancillary Agreements, not be deemed Confidential Information with respect to the use of such Information by PFSweb in the ordinary course of the PFS Business or by Daisytek in the ordinary course of Daisytek's business, respectively.

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

Section 5.02. Legally Required Disclosure of Confidential Information. If any of the parties to this Agreement or any of their respective Affiliates or Representatives becomes legally required to disclose any Confidential Information, such disclosing party shall promptly notify the party owning the Confidential Information (the "Owning Party") and shall use all commercially reasonable efforts to cooperate with the Owning Party so that the Owning Party may seek a protective order or other appropriate remedy and/or waive compliance with Section 5.01. All expenses reasonably incurred by the disclosing party in seeking a protective order or other remedy shall be borne by the Owning Party. If such protective order or other remedy is not obtained, or if the Owning Party waives compliance with Section 5.01, the disclosing party or its Affiliate or Representative, as applicable, shall (a) disclose only that portion of the Confidential Information which its legal counsel advises it is compelled to disclose or else stand liable for contempt or suffer other similar significant corporate censure or penalty, (b) use all commercially reasonable efforts, at the Owning Party's expense, to obtain such reliable assurance as may be reasonably requested by the Owning Party that confidential treatment will be accorded such Confidential Information, and (c) promptly provide the Owning Party with a copy of the Confidential Information so disclosed, in the same form and format so disclosed, together with a description of all Persons to whom such Confidential Information was disclosed.

Section 5.03. Record Retention.

(a) Books and Records. To the extent that books and records of Daisytek or any of its Affiliates contain information relating to the PFS Business and the same are not included in the PFS Assets, Daisytek agrees to cooperate with PFSweb in providing PFSweb with any such information upon PFSweb's reasonable request to the extent that any such information exists and is reasonably separable from Daisytek information unrelated to the PFS Business. PFSweb shall reimburse Daisytek for all of its reasonable out-of-pocket costs incurred in connection with any such request. PFSweb shall preserve and keep all books and records included in the PFS Assets, whether in electronic form or otherwise, for no less than the period of time from the Contribution Date as may be required by any governmental authority or agency or as may be considered good business practice (the "Retention Period"). If PFSweb wishes to dispose of any books and records or other documents which it is obligated to retain under this Section after the Retention Period, then PFSweb shall first provide 90 days' written notice to Daisytek and Daisytek shall have the

right, at its option and expense, upon prior written notice within such 90-day period, to take possession of such books or records or other documents. Written notice of intent to dispose of such books and records shall include a description of the books and records in detail sufficient to allow Daisytek to reasonably assess its potential need to retain such materials. In the event PFSweb enters into an agreement with a third party to sell a portion of the PFS Business, together with the books and records related thereto, Daisytek shall have the right to duplicate such books and records prior to any such disposition and, should the purchaser of the PFS Business be a competitor of Daisytek, Daisytek shall have the right to prohibit the transfer or disclosure to such party of that portion of the former books and records of Daisytek which Daisytek notifies PFSweb then contains Confidential Information.

(b) Tax Related Records. Daisytek and PFSweb agree to retain all tax returns, related schedules and workpapers, and all material records and other documents as required under Section 6001 of the Code, as well as by any similar provision of state or local income tax law, until the expiration of the applicable statute of limitations for the tax period to which the records relate. If either party wishes to dispose of any such records or documents after such retention period, then the procedure described in (a) above shall apply.

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

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

ARTICLE 6

MISCELLANEOUS

Section 6.01. Entire Agreement. This Agreement, including all the Ancillary Agreements, constitutes the entire agreement between the parties with respect to the subject matter hereof and

supersedes all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

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

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

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

Section 6.05. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their legal representatives and successors, and each Subsidiary and each Affiliate of the parties hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except as otherwise expressly provided herein. Except as otherwise expressly set forth herein, this Agreement may not be assigned or transferred to any other Person without the prior written consent of each of the parties hereto.

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

Section 6.07. Dispute Resolution. Except as otherwise set forth in the Ancillary Agreements, resolution of any and all disputes arising from or in connection with this Agreement, whether based on contract, tort, or otherwise (collectively, "Disputes"), shall be exclusively governed by and settled in accordance with the provisions of this Section. The parties hereto shall use all commercially reasonable efforts to settle all Disputes without resorting to mediation, arbitration, litigation or other third party dispute resolution mechanisms. If any Dispute remains unsettled, a party hereto may commence proceedings hereunder by first delivering a written notice from a Senior Vice President or comparable executive officer of such party (the "Demand") to the

other parties providing a reasonable description of the Dispute to the others and expressly requesting mediation hereunder. The parties hereby agree to submit all Disputes to non-binding mediation before a mediator reasonably acceptable to all parties involved in such Dispute. If the parties are unable to agree upon a mediator or if, after such mediation, the parties subject to such mediation disagree regarding the mediator's recommendation, such Dispute shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in Dallas, Texas by three arbitrators acting by majority vote (the "Panel") selected by agreement of the parties, or, failing such agreement, appointed pursuant to the commercial arbitration rules of the American Arbitration Association, as amended from time to time (the "AAA Rules"). If an arbitrator so selected becomes unable to serve, his or her successors shall be similarly selected or appointed. The arbitration shall be conducted pursuant to the Federal Arbitration Act and such procedures as the parties subject to such arbitration (each, a "Party") may agree, or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing: (i) each Party shall have the right to inspect the books and records of the other Party that are reasonably related to the Dispute; (ii) each Party shall provide to the other, reasonably in advance of any hearing, copies of all documents which a Party intends to present in such hearing; and (iii) each Party shall be allowed to conduct reasonable discovery through written requests for information, document requests, requests for stipulation of fact and depositions, the nature and extent of which discovery shall be determined by the Parties; provided that if the Parties cannot agree on the terms of such discovery, the nature and extent thereof shall be determined by the Panel which shall take into account the needs of the Parties and the desirability of making discovery expeditious and cost effective. The award shall be in writing and shall specify the factual and legal basis for the award. The Panel shall apportion all costs and expenses of arbitration, including the Panel's fees and expenses and fees and expenses of experts, between the prevailing and non-prevailing Party as the Panel deems fair and reasonable. The parties hereto agree that monetary damages may be inadequate and that any party by whom this Agreement is enforceable shall be entitled to seek specific performance of the arbitrators' decision from a court of competent jurisdiction, in addition to any other appropriate relief or remedy. Notwithstanding the foregoing, in no event may the Panel award consequential, special, exemplary or punitive damages. Any arbitration award shall be binding and enforceable against the parties hereto and judgment may be entered thereon in any court of competent jurisdiction.

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

Section 6.09. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right

or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

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

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

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

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

DAISYTEK INTERNATIONAL CORPORATION

By: _____
Name:
Title:

DAISYTEK, INCORPORATED

By: _____
Name:
Title:

PRIORITY FULFILLMENT SERVICES, INC.

By: -----
Name:
Title:

PFSWEB, INC.

By: -----
Name:
Title:

INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

dated as of _____, 1999

by and among

DAISYTEK INTERNATIONAL CORPORATION,

DAISYTEK, INCORPORATED

and

PFSWEB, INC.

INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

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

RECITALS

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

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

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

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

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

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

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

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

WHEREAS, Daisytek International, Daisytek and PFSweb intend that the Distribution will be tax-free to Daisytek, Daisytek International and its stockholders under Section 355 of the Code;

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

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

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

1. DEFINITIONS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Daisytek Affiliate with respect to the Distribution, or (ii) an IRS private letter ruling to the same effect.

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

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

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

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

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

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

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

"Tax-Related Losses" means (i) all federal, state and local Taxes (including interest and penalties thereon) imposed pursuant to any settlement, final determination, judgment or otherwise; (ii) all accounting, legal and other professional fees, and court costs incurred in connection with such taxes; and (iii) all costs and expenses that may result from adverse tax

consequences to Daisytek, Daisytek International or its stockholders (including all costs, expenses and damages associated with stockholder litigation or controversies) payable by Daisytek or Daisytek Affiliates.

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

"Underwriters" means the managing underwriters for the IPO.

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

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

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

2. THE INITIAL PUBLIC OFFERING AND THE DISTRIBUTION.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4. The Distribution. Daisytek and Daisytek International intend, within 12 months following the consummation of the Initial Public Offering, to complete the Distribution. PFSweb shall cooperate with Daisytek in all respects to accomplish the Distribution and shall, at Daisytek International's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including, without limitation, to the extent necessary under then applicable law, the registration under the Securities Act of PFSweb Common Stock on an appropriate registration form or forms to be designated by Daisytek International. Daisytek International shall select any investment banker(s) and manager(s) in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and outside counsel for Daisytek International; provided that nothing herein shall prohibit PFSweb from engaging (at its own expense) its own financial, legal, accounting and other advisors in connection with the Distribution.

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

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

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

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

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

(c) PFSweb shall prepare and file, and shall use its reasonable best efforts to have approved, an application for the listing on the NASDAQ National Market, subject to official notice of distribution of the PFSweb Common Stock to be distributed in the Distribution, and the shares of PFSweb Common Stock covered by PFSweb Options to be granted under Section 3.6 below.

2.8. Conditions To Distribution. The consummation of the Distribution is subject to such conditions as Daisytek shall determine in its sole and absolute discretion, which conditions, or any of them, may be waived by Daisytek in its sole and absolute discretion, and shall include, without limitation, the following:

(a) The receipt by Daisytek International of either, at its option and in its sole and absolute discretion (i) a ruling by the IRS that, among certain other Tax consequences of the

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

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

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

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

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

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

2.10. Replacement of Daisytek Options. As of the Distribution Date, each outstanding Daisytek Option held by a PFSweb Employee shall be replaced with a PFSweb Option having substantially the same terms and conditions as the Daisytek Option to be replaced thereby, including any and all vesting requirements and conditions of exercise; provided, however, that (i) the PFS Employee shall be credited, for vesting purposes, with the period of employment in which the PFS Employee was employed by Daisytek or a Daisytek Affiliate, (ii) the number of shares of PFSweb Common Stock subject to such PFSweb Options shall be equal to the number of shares

of Daisytek Common Stock subject to the Daisytek Option multiplied by the Ratio and (iii) the per share exercise price of the PFSweb Common Stock subject to such PFSweb Option shall be equal to the per share exercise price of the Daisytek Common Stock subject to the Daisytek Option divided by the Ratio. PFSweb shall take all corporate action and make all required filings under applicable state Blue Sky laws and the Securities Act to register or qualify the PFSweb Options and/or the underlying shares of PFSweb Common Stock so that the shares of PFSweb Common Stock acquired upon exercise of each PFSweb Option are freely tradable under the Securities Act (except for shares acquired by affiliates (as defined in the Securities Act) of PFSweb) and each applicable state's Blue Sky laws.

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

2.12. Abandonment of the Distribution. The parties expressly acknowledge and agree that neither Daisytek nor Daisytek International is obligated in any respect to proceed with or complete the Distribution, and that Daisytek International may, in its sole and absolute discretion, at any time abandon its plans to proceed with or complete the Distribution. In the event that Daisytek International so determines that it no longer intends to proceed with or complete the Distribution, Daisytek International shall provide to PFSweb a written notification of such determination (an "Abandonment Notice"). Effective as of the date of the Abandonment Notice, (a) provided that no Distribution Date has yet occurred, Sections 4.2 and 4.3 of this Agreement shall terminate, become null and void and have no further force and effect and (b) Daisytek International's rights, and PFSweb's obligations, set forth in the Registration Rights Agreement shall immediately become effective.

3. EXPENSES.

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

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

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

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

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

4.1. Representations and Warranties.

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

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

4.2. Restrictions on PFSweb.

(a) PFSweb shall not take any action (such action to include, if relevant, the issuance of PFSweb Capital Stock upon the exercise by the holders thereof of all options or convertible securities issued by PFSweb) during the Pre-Distribution Period if, as a result of taking such action, PFSweb would issue a number of shares of PFSweb Capital Stock (including by way of the exercise of stock options or the issuance of restricted stock) that would cause Daisytek to cease to have Tax Control of PFSweb, unless prior to the consummation of such transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such transaction would not jeopardize the Tax-Free Status of the Distribution. Notwithstanding the foregoing provisions of this Section 4.2(a), PFSweb shall be permitted to issue stock options and restricted stock awards to its employees so long as (i)(A) such options or restricted stock awards will not be exercisable or vest, by their terms, prior to the Distribution Date or (B) PFSweb repurchases sufficient shares of issued and outstanding PFSweb Capital Stock on or prior to the date such options are exercisable or restricted stock is vested (or deemed vested) to insure that, assuming the exercise of all exercisable options and vesting of such restricted stock, Daisytek

would not cease to have Tax Control of PFSweb and (ii) PFSweb provides Daisytek with prior written notification of the procedures by which PFSweb intends to comply with its obligation described in clause (B) above and Daisytek approves of such procedures (which approval shall not be unreasonably withheld). All of the restrictions on PFSweb contained in this Section 4.2 shall apply to PFSweb during the Pre-Distribution Period as well as the other periods specified in this Section 4.2.

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

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

be treated as directly or indirectly controlling a Subsidiary unless PFSweb owns, directly or indirectly, shares of capital stock of such Subsidiary constituting (A) 80% or more of the total combined voting power of all outstanding shares of Voting Stock of such Subsidiary and (B) 80% or more of the total number of outstanding shares of each class or series of capital stock of such Subsidiary other than Voting Stock.

(d) Until the first day after the two-year anniversary of the latest Distribution Date, (A) PFSweb shall not voluntarily dissolve or liquidate, and (B) except in the ordinary course of business, neither PFSweb nor any Subsidiaries directly or indirectly controlled by PFSweb shall sell, transfer, or otherwise dispose of or agree to dispose of assets (including, for such purpose, any shares of capital stock of such Subsidiaries) that, in the aggregate, constitute more than (x) 60% of the gross assets of PFSweb or (y) 60% of the consolidated gross assets of PFSweb (including PFS - Texas LLC) and such Subsidiaries, unless prior to the consummation of such transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution, that such transaction would not jeopardize the Tax-Free Status of the Distribution. The amount of gross assets of PFSweb and such Subsidiaries shall be based on the fair market value of each such asset as of the applicable Distribution Date. Sales, transfers or other dispositions by PFSweb or any of its Subsidiaries to PFSweb or one or more Subsidiaries directly or indirectly controlled by PFSweb shall not be included in any determinations under this Section 4.2(d) of whether such 60% or more of the gross assets of PFSweb or 60% of the consolidated gross assets of PFSweb and such Subsidiaries have been sold, transferred or otherwise disposed of. Solely for purposes of this Section 4.2(d), PFSweb shall not be treated as directly or indirectly controlling a Subsidiary unless PFSweb owns, directly or indirectly, shares of capital stock of such Subsidiary constituting (A) 80% or more of the total combined voting power of all outstanding shares of Voting Stock of such Subsidiary and (B) 80% or more of the total number of outstanding shares of each class or series of capital stock of such Subsidiary other than Voting Stock.

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

(f) Until the first day after the two-year anniversary of the latest Distribution Date, PFSweb shall not take, or permit any of its Subsidiaries to take, any other actions or enter into any transaction or series of transactions or agree to enter into any other transactions that would be reasonably likely to jeopardize the Tax-Free Status of the Distribution or the qualification of the Contribution as a D Reorganization, including any action or transaction that would be reasonably likely to be inconsistent with any representation made in the Representation Letters, unless prior to the consummation of such action or transaction Daisytek has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution and the qualification of the Contribution as a D

Reorganization, that such action or transaction would not jeopardize the Tax-Free Status of the Distribution or the qualification of the Contribution as a D Reorganization. Notwithstanding the foregoing, if and to the extent that any action or transaction is described in and permitted pursuant to Sections 4.2(a), (b), (c), (d) or (e), such action or transaction shall not be prohibited by this Section 4.2(f).

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

4.3. Cooperation and Other Covenants.

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

(b) (i) Each of PFSweb and Daisytek International shall cooperate with the other and shall take (or refrain from taking) all such actions as the other may reasonably request in connection with obtaining any Daisytek determination referred to in Section 4.2. Such cooperation shall include, without limitation, providing any information and/or representations reasonably requested by the other to enable either party (or counsel for such party) to obtain and maintain any Subsequent Tax Opinion/Ruling that would permit any action described in Section 4.2 to be taken by PFSweb or a PFSweb Affiliate. From and after any Representation Date in connection with obtaining any such determination or the receipt of a Subsequent Tax Opinion/Ruling and until the first day after the two-year anniversary of the date of such determination or receipt, neither party shall take (nor shall it refrain from taking) any action that would have caused such representation to be untrue unless the other party has determined, in its sole and absolute discretion, which discretion shall be exercised in good faith solely to preserve the Tax-Free Status of the Distribution and the qualification of the Contribution as a D Reorganization, that such action would not jeopardize the Tax-Free Status of the Distribution or the qualification of the Contribution as a D Reorganization.

(ii) In the event that PFSweb notifies Daisytek that it desires to take one of the actions described in Section 4.2 and Daisytek concludes that such action might jeopardize the Tax-Free Status of the Distribution or the qualification of the Contribution as a D Reorganization, Daisytek shall, at the request of PFSweb, elect either to (A) use all commercially reasonable efforts to obtain a Subsequent Tax Opinion/Ruling that would permit PFSweb to take the specified action, and PFSweb shall cooperate in connection with such efforts, or (B) provide all reasonable cooperation to PFSweb in connection with PFSweb obtaining such a Subsequent Tax Opinion/Ruling in form and substance reasonably satisfactory to Daisytek; provided, however, that the reasonable costs and expenses of obtaining any such Subsequent Tax Opinion/Ruling shall be borne by Daisytek, unless such Subsequent Tax Opinion/Ruling shall not be obtained as the result of a determination that the proposed action shall jeopardize the Tax-Free Status of the Distribution or the qualification of the Contribution as a D Reorganization, in which

case the costs and expenses of attempting to obtain such Subsequent Tax Opinion/Ruling shall be borne by PFSweb.

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

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

4.4. Indemnification For Tax Liabilities.

(a) Notwithstanding any other provision of this Agreement to the contrary, (i) subject to Section 4.4(b), PFSweb shall indemnify, defend and hold harmless Daisytek International and each Daisytek Affiliate (or any successor to any of them) against any and all Tax-Related Losses incurred by Daisytek International or any of them in connection with any proposed tax assessment or tax controversy with respect to the Distribution or the Contribution to the extent caused by any breach by PFSweb of any of its representations, warranties or covenants made pursuant to this Agreement and (ii) Daisytek International shall indemnify, defend and hold harmless PFSweb and each PFSweb Affiliate (or any successor to any of them) against any and all Tax-Related Losses incurred by PFSweb or any of them in connection with any

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

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

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

4.5. Procedure For Indemnification For Tax Liabilities.

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

(b) (i) Daisytek and PFSweb shall jointly control the defense of, and cooperate with each other with respect to defending, any Third-Party Claim with respect to which either party is obligated under Section 4.4 to provide indemnification, provided that either party shall forfeit such joint control right with respect to a particular Third-Party Claim if such party or any Affiliate of such party makes any public statement or filing, or takes any action (including, but not limited to, the filing of any submission or pleading, or the giving of a deposition or production of documents, in any administrative or court proceeding) in connection with such Third-Party Claim that is inconsistent in a material respect with any representation or warranty made by such party in this Agreement, the Tax Opinions/Rulings, or the Representation Letters.

(ii) PFSweb and Daisytek shall exercise their rights to jointly control the defense of any such Third-Party Claim solely for the purpose of defeating such Third-Party Claim and, unless required by applicable law, neither PFSweb nor Daisytek shall make any

statements or take any actions that could reasonably result in the shifting of liability for any Losses arising out of such Third-Party Claim from the party making such statement or taking such action (or any of its Affiliates) to the other party (or any of its Affiliates).

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

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

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

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

(b) Either party may initiate arbitration with regard to such dispute by giving the other party written notice either (i) at any time following the end of the Negotiation Period, or (ii) if the parties do not meet within 20 Business Days of the receipt of the Dispute Notice, at any time thereafter. The arbitration shall be conducted by three arbitrators in accordance with the CPR Rules, except as otherwise provided in this Section 4.6. Within 20 days following receipt of the written notice of arbitration, Daisytek and PFSweb shall each appoint one arbitrator. The two arbitrators so appointed shall appoint the third arbitrator. If either Daisytek or PFSweb shall fail to appoint an arbitrator within such 20-day period, the arbitration shall be by the sole arbitrator appointed by the other party. Whether selected by Daisytek and PFSweb or otherwise, each arbitrator selected to resolve such dispute shall be a tax attorney or tax accountant who is generally recognized in the tax community as a qualified and competent tax practitioner with experience in the tax area involved in the issue or issues to be resolved. Such arbitrators shall be

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

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

5. CERTAIN OTHER COVENANTS.

5.1. Financial And Other Information.

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

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

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

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

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

(v) As soon as practicable, and in any event no later than three days before PFSweb intends to file its Quarterly Financial Statements (as defined below) with the SEC, PFSweb shall deliver to Daisytek International as final as possible drafts of (A) the consolidated financial statements of PFSweb and its Subsidiaries (and notes thereto) for such periods and for

the period from the beginning of the current fiscal year to the end of such quarter, setting forth in each case in comparative form for each such fiscal quarter of PFSweb the consolidated figures (and notes thereto) for the corresponding quarter and periods of the previous fiscal year and all in reasonable detail and prepared in accordance with Article 10 of Regulation S-X, and (B) a discussion and analysis by management of PFSweb's and its Subsidiaries' financial condition and results of operations for such fiscal period, including, without limitation, an explanation of any material adverse change, all in reasonable detail and prepared in accordance with Item 303(b) of Regulation S-K. The information set forth in (A) and (B) above is herein referred to as the "Quarterly Financial Statements." If requested by Daisytek International, together with the delivery of the Quarterly Financial Statements, PFSweb shall deliver to Daisytek International a certificate of the chief financial officer of PFSweb to the effect that the Quarterly Financial Statements present fairly, in all material respects, the financial condition and results of operations of PFSweb and its Subsidiaries as of and for the periods presented therein; provided that PFSweb may continue to revise such Quarterly Financial Statements prior to the filing thereof in order to make corrections and changes which corrections and changes shall be delivered by PFSweb to Daisytek International as soon as practicable thereafter; and, provided, further, that Daisytek International and PFSweb financial representatives shall actively consult with each other regarding any changes (whether or not substantive) which PFSweb may consider making to its Quarterly Financial Statements and related disclosures during the period prior to any anticipated filing with the SEC, and PFSweb shall obtain Daisytek International's consent prior to making any change to PFSweb's Quarterly Financial Statements or related disclosures which would have an effect upon Daisytek International's financial statements or related disclosures. In addition to the foregoing, no Quarterly Financial Statement or any other document which refers, or contains information with respect, to the ownership of PFSweb by Daisytek, the separation of PFSweb from Daisytek International or the Distribution shall be filed with the SEC or otherwise made public by PFSweb or any of its Subsidiaries without the prior written consent of Daisytek International.

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

and changes which corrections and changes shall be delivered by PFSweb to Daisytek International as soon as practicable thereafter; and, provided, further, that Daisytek International and PFSweb financial representatives shall actively consult with each other regarding any changes (whether or not substantive) which PFSweb may consider making to its Annual Financial Statements and related disclosures during the period prior to any anticipated filing with the SEC, and PFSweb shall obtain Daisytek International's consent prior to making any change to PFSweb's Annual Financial Statements or related disclosures which would have an effect upon Daisytek International's financial statements or related disclosures. In addition to the foregoing, no Annual Financial Statement or any other document which refers, or contains information with respect, to the ownership of PFSweb by Daisytek, the separation of PFSweb from Daisytek International or the Distribution shall be filed with the SEC or otherwise made public by PFSweb or any of its Subsidiaries without the prior written consent of Daisytek International. In any event, PFSweb shall deliver to Daisytek International, no later than 80 days after the end of each fiscal year of PFSweb, the final form of the Annual Financial Statements accompanied by an opinion thereon by PFSweb's independent certified public accountants.

(vii) PFSweb shall deliver to Daisytek International all Quarterly and Annual Financial Statements of each Subsidiary of PFSweb which is itself required to file financial statements with the SEC or otherwise make such financial statements publicly available, with such financial statements to be provided in the same manner and detail and on the same time schedule as those financial statements of PFSweb required to be delivered to Daisytek International pursuant to this Section 5.1.

(viii) PFSweb and each of its Subsidiaries which files information with the SEC shall deliver to Daisytek International: (A) as soon as the same are prepared, substantially final drafts of: (x) all reports, notices and proxy and information statements to be sent or made available by PFSweb or any of its Subsidiaries to their security holders, (y) all regular, periodic and other reports to be filed under Sections 13, 14 and 15 of the Exchange Act (including Reports on Forms 10-K, 10-Q and 8-K and Annual Reports to Shareholders), and (z) all registration statements and prospectuses to be filed by PFSweb or any of its Subsidiaries with the SEC or any securities exchange pursuant to the listed company manual (or similar requirements) of such exchange (collectively, the documents identified in clauses (x), (y) and (z) are referred to herein as "PFSweb Public Documents"), and (B) as soon as practicable, but in no event later than four Business Days prior to the date the same are printed, sent or filed, whichever is earliest, final copies of all such PFSweb Public Documents; provided that PFSweb may continue to revise such PFSweb Public Documents prior to the filing thereof in order to make corrections and changes which corrections and changes shall be delivered by PFSweb to Daisytek International as soon as practicable thereafter; and, provided, further, that Daisytek International and PFSweb financial representatives shall actively consult with each other regarding any changes (whether or not substantive) which PFSweb may consider making to any of its PFSweb Public Documents and related disclosures prior to any anticipated filing with the SEC, and PFSweb shall obtain Daisytek International's consent prior to making any change to its PFSweb Public Documents or related disclosures which would have an effect upon Daisytek International's financial statements or related disclosures. In addition to the foregoing, no PFSweb Public Document or any other document which refers, or contains information with respect, to the

ownership of PFSweb by Daisytek, the separation of PFSweb from Daisytek International or the Distribution shall be filed with the SEC or otherwise made public by PFSweb or any of its Subsidiaries without the prior written consent of Daisytek International.

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

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

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

(xii) PFSweb shall cooperate fully, and cause its accountants to cooperate fully, with Daisytek International to the extent requested by Daisytek in the preparation of Daisytek International's public earnings releases, quarterly reports on Form 10-Q, Annual Reports to Shareholders, Annual Reports on Form 10-K, any Current Reports on Form 8-K and any other proxy, information and registration statements, reports, notices, prospectuses and any other filings made by Daisytek International with the SEC, any national securities exchange or otherwise made publicly available (collectively, "Daisytek Public Filings"). PFSweb agrees to provide to Daisytek International all information that it reasonably requests in connection with any Daisytek Public Filings or that, in the judgment of Daisytek International's legal counsel, is required to be disclosed or incorporated by reference therein under any law, rule or regulation. Such information shall be provided by PFSweb in a timely manner on the dates requested by Daisytek International (which may be earlier than the dates on which PFSweb otherwise would be required hereunder to have such information available) to enable Daisytek International to prepare, print and release all Daisytek Public Filings on such dates as Daisytek International shall determine. PFSweb shall use commercially reasonable efforts to cause its accountants to consent to any reference to them as experts in any Daisytek Public Filings required under any law, rule or regulation. If and to the extent requested by Daisytek International, PFSweb shall diligently and

promptly review all drafts of such Daisytek Public Filings and prepare in a diligent and timely fashion any portion of such Daisytek Public Filing pertaining to PFSweb. Prior to any printing or public release of any Daisytek Public Filing, an appropriate executive officer of PFSweb shall, if requested by Daisytek International, certify that the information relating to PFSweb, any PFSweb Affiliate or the PFSweb Business in such Daisytek Public Filing is accurate, true and correct in all material respects. Unless required by law, rule or regulation, PFSweb shall not publicly release any financial or other information which conflicts with the information with respect to PFSweb, any PFSweb Affiliate or the PFSweb Business that is included in any Daisytek Public Filing without Daisytek International's prior written consent. Prior to the release or filing thereof, Daisytek International shall provide PFSweb with a draft of any portion of a Daisytek Public Filing containing information relating to PFSweb and its Subsidiaries and shall give PFSweb an opportunity to review such information and comment thereon; provided that Daisytek International shall determine in its sole discretion the final form and content of all Daisytek Public Filings.

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

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

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

(iii) PFSweb shall provide to Daisytek International on a timely basis all information that Daisytek International reasonably requires to meet its schedule for the preparation, printing, filing, and public dissemination of the Daisytek Annual Statements. Without limiting the generality of the foregoing, PFSweb will provide all required financial information with respect to PFSweb and its Subsidiaries to PFSweb's Auditors in a sufficient and reasonable time and in sufficient detail to permit PFSweb's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to Daisytek's Auditors with respect to information to be included or contained in the Daisytek Annual Statements.

(iv) PFSweb shall authorize PFSweb's Auditors to make available to Daisytek's Auditors both the personnel who performed or are performing the annual audit of PFSweb and work papers related to the annual audit of PFSweb, in all cases within a reasonable time prior to PFSweb's Auditors' opinion date, so that Daisytek's Auditors are able to perform the procedures they consider necessary to take responsibility for the work of PFSweb's Auditors as it

relates to Daisytek's Auditors' report on Daisytek International's statements, all within sufficient time to enable Daisytek International to meet its timetable for the printing, filing and public dissemination of the Daisytek Annual Statements.

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

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

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

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

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

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

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

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

6. INDEMNIFICATION.

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

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

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

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

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

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

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

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

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

6.3. Other Liabilities.

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

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

6.4. Tax Effects of Indemnification.

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

(b) The amount of any Loss or Tax-Related Losses for which indemnification is provided under this Agreement shall be (i) increased to take account of net Tax cost, if any, incurred by the Indemnitee arising from the receipt or accrual of an Indemnity Payment hereunder (grossed up for such increase) and (ii) reduced to take account of net Tax benefit, if any, realized by the Indemnitee arising from incurring or paying such Loss or Tax-Related Losses. In computing the amount of any such Tax cost or Tax benefit, the Indemnitee shall be deemed to recognize all other items of income, gain, loss, deduction or credit before recognizing any item arising from the receipt or accrual of any Indemnity Payment hereunder or incurring or paying any indemnified Loss or Tax-Related Losses. Any Indemnity Payment hereunder shall initially be made without regard to this Section 6.4 and shall be increased or reduced to reflect any such net Tax cost (including gross-up) or net Tax benefit only after the Indemnitee has actually realized such cost or benefit. For purposes of this Agreement, an Indemnitee shall be deemed to have "actually realized" a net Tax cost or a net Tax benefit to the extent that, and at such time as, the amount of Taxes payable by such Indemnitee is increased above or reduced below, as the case may be, the amount of Taxes that such Indemnitee would be required to pay but for the receipt or accrual of the Indemnity Payment or the incurrence or payment of such Loss or Tax-Related Losses, as the case may be. The amount of any increase or reduction hereunder shall be adjusted to reflect any final determination (which shall include the execution of Form 870-AD or successor form) with respect to the Indemnitee's liability for Taxes, and payments between Daisytek and PFSweb to reflect such adjustment shall be made if necessary.

6.5. Effect Of Insurance upon Indemnification. The amount which an Indemnifying Party is required to pay to any Indemnitee pursuant to this Section 6 shall be reduced (including retroactively) by any Insurance Proceeds and other amounts actually recovered by such Indemnitee in reduction of the related Loss, it being understood and agreed that each of PFSweb and Daisytek International shall use commercially reasonable efforts to collect any such proceeds or other amounts to which it or any of its Affiliates is entitled, without regard to whether it is the Indemnifying Party hereunder. No Indemnitee shall be required, however, to collect any such proceeds or other amounts prior to being entitled to indemnification from an Indemnifying Party hereunder. If an Indemnitee receives an Indemnity Payment in respect of a Loss and subsequently receives Insurance Proceeds or other amounts in respect of such Loss, then such Indemnitee shall pay to such Indemnifying Party an amount equal to the difference between (a) the sum of the amount of such Indemnity Payment and the amount of such Insurance Proceeds or other amounts actually received and (b) the amount of such Loss, in each case adjusted (at such time as appropriate adjustment can be determined) to reflect any premium adjustment attributable to such claim.

6.6. Procedure for Indemnification Involving Third-Party Claims.

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

(b) An Indemnifying Party, at such Indemnifying Party's own expense and through counsel chosen by such Indemnifying Party (which counsel shall be reasonably acceptable to the Indemnatee), may elect to defend any Third-Party Claim. If an Indemnifying Party elects to defend a Third-Party Claim, then, within ten Business Days after receiving notice of such Third-Party Claim (or sooner, if the nature of such Third-Party Claim so requires), such Indemnifying Party shall notify the Indemnatee of its intent to do so, and such Indemnatee shall cooperate in the defense of such Third-Party Claim. Such Indemnifying Party shall pay such Indemnatee's reasonable out-of-pocket expenses incurred in connection with such cooperation. Such Indemnifying Party shall keep the Indemnatee reasonably informed as to the status of the defense of such Third-Party Claim. After notice from an Indemnifying Party to an Indemnatee of its election to assume the defense of a Third-Party Claim, such Indemnifying Party shall not be liable to such Indemnatee under this Section 6 for any legal or other expenses subsequently incurred by such Indemnatee in connection with the defense thereof other than those expenses referred to in the preceding sentence; provided, however, that such Indemnatee shall have the right to employ one law firm as counsel ("Separate Counsel"), to represent such Indemnatee in any action or group of related actions (which firm or firms shall be reasonably acceptable to the Indemnifying Party) if, in such Indemnatee's reasonable judgment at any time, either a conflict of interest between such Indemnatee and such Indemnifying Party exists in respect of such claim, or there may be defenses available to such Indemnatee which are different from or in addition to those available to such Indemnifying Party and the representation of both parties by the same counsel would be inappropriate, and in that event (i) the reasonable fees and expenses of such Separate Counsel shall be paid by such Indemnifying Party (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one Separate Counsel (excluding local counsel) with respect to any Third-Party Claim (even if against multiple Indemnitees)) and (ii) each of such Indemnifying Party and such Indemnatee shall have the right to conduct its own defense in respect of such claim. If an Indemnifying Party elects not to defend against a Third-Party Claim, or fails to notify an Indemnatee of its election as provided in this Section 6 within the period of ten Business Days described above, the Indemnatee may defend, compromise, and settle such Third-Party Claim and shall be entitled to indemnification hereunder (to the extent permitted hereunder); provided, however, that no such Indemnatee may compromise or settle any such Third-Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Notwithstanding the foregoing, the Indemnifying Party shall not, without the prior written consent of the Indemnatee, (i) settle or compromise any Third-Party Claim or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the Indemnatee

of a written release from all liability in respect of such Third-Party Claim or (ii) settle or compromise any Third-Party Claim in any manner that would be reasonably likely to have a material adverse effect on the Indemnitee.

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

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

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

7. MISCELLANEOUS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DAISYTEK INTERNATIONAL CORPORATION

By: _____

DAISYTEK, INCORPORATED

By: _____

PFSWEB, INC.

By: _____

REGISTRATION RIGHTS AGREEMENT

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

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

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

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

WHEREAS, Daisytek, Daisytek International and the Company intend that this contribution qualify as a tax-free reorganization under Section 368(a)(1)(D) of the Internal Revenue Code;

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

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

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

WHEREAS, within 12 months following the IPO, Daisytek intends to divest itself of its entire ownership of the Company through a tax-free distribution to Daisytek International, to be immediately followed by a tax-free distribution by Daisytek International to the holders of Daisytek International common stock (the "Distribution");

WHEREAS, Daisytek, Daisytek International and the Company intend that the Distribution will be tax-free to Daisytek, Daisytek International and its stockholders under Section 355 of the Code; and

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

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

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

Section 1. Effectiveness of Agreement; Term.

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

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

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

Section 2. Demand Registration.

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

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

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

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

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

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

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

2.4 Third Person Shares. The Company shall have the right to cause the registration of securities for sale for the account of any Person (including the Company) other than the Selling Holders (the "Third Person Shares") in any registration of the Shares requested pursuant to this Section 2 so long as the Third Person Shares are disposed of in accordance with the intended

method or methods of disposition requested pursuant to this Section 2; provided, however, that the Company shall not have the right to cause the registration of such securities of such other Persons if the registration requested pursuant to this Section 2 is a Convertible Registration or an Exchange Registration.

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

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

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

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

2.8 Other Registration Rights. The Company shall not grant to any Persons the right to request the Company to register any equity securities of the Company, or any securities

convertible or exchangeable into or exercisable for such securities unless such rights are consistent with the rights granted under this Agreement.

Section 3. Piggyback Registrations.

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

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

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

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

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

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

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

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

Section 4. Registration Procedures.

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

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

(b) except in the case of a Shelf Registration, Convertible Registration or Exchange Registration, prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Securities Act with respect to the disposition of all of the Shares until the earlier of (i) such time as all of such

Shares have been disposed of in accordance with the intended methods of disposition set forth in such registration statement or (ii) the expiration of nine months after such registration statement becomes effective;

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

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

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

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

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

delivered to underwriters in underwritten public offerings of securities and such other matters as the Selling Holders may reasonably request, in each case, in form and substance and as of the dates reasonably satisfactory to the Selling Holders;

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

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

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

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

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

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

4.2 Underwriting. If requested by the underwriters for any underwritten offering in connection with a registration requested hereunder (including any registration under Section 3

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

4.3 Blackout Periods for Shelf Registrations.

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

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

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

4.5 Holdback Agreements.

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

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

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

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

Section 6. Indemnification and Contribution.

(a) In the event of any registration of any of the Shares hereunder, the Company will enter into customary indemnification arrangements to indemnify and hold harmless each of the Selling Holders, each of their respective directors and officers, each Person (as defined in (e) below) who participates as an underwriter in the offering or sale of such securities, each officer and director of each underwriter, and each Person, if any, who controls each such Selling Holder or any such underwriter within the meaning of the Securities Act (collectively, the "Covered Persons") against any losses, claims, damages, liabilities and expenses, joint or several, to which such Person may be subject under the Securities Act or otherwise insofar as such losses, claims,

damages, liabilities or expenses (or actions or proceedings in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any related registration statement filed under the Securities Act, any preliminary prospectus or final prospectus included therein, or any amendment or supplement thereto, or any document incorporated by reference therein, or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will reimburse each such Covered Person, as incurred, for any legal or any other expenses reasonably incurred by such Covered Person in connection with investigating or defending any such loss, claim, liability, action or proceeding; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, any such preliminary prospectus or final prospectus, amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Selling Holder or such underwriter specifically for use in the preparation thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any such Covered Person and shall survive the transfer of such securities by the Selling Holders. The Company also shall agree to provide for contribution as shall reasonably be requested by the Selling Holders or any underwriters in circumstances where such indemnity is held unenforceable.

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

(c) Any Person entitled to indemnification hereunder shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification (provided, however, that the failure to give prompt notice shall not impair any Person's rights to indemnification hereunder to the extent such failure has not prejudiced the indemnifying party) and (ii) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the

indemnified party. If such defense is assumed, the indemnifying party shall not be subject to any liability for any settlement made by the indemnified party without its consent (but such consent shall not be unreasonably withheld). An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim shall not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim.

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

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

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

Section 8. Registration Expenses. As used in this Agreement, the term "Registration Expenses" means all expenses incident to the Company's performance of or compliance with the registration requirements set forth in this Agreement including, without limitation, the following: (a) all registration and filing fees; (b) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares to be disposed of under the Securities Act; (c) the reasonable fees, disbursements and expenses of the Selling Holders' counsel and advisors in connection with the registration of the Shares to be disposed of under the Securities Act; (d) all expenses in connection with the preparation, printing and filing of the registration statement, any preliminary prospectus or final prospectus, any other offering document and amendments and supplements thereto and the mailing and delivering of copies thereof to the underwriters and dealers and directly to securityholders in the case of an Exchange Registration; (e) the cost of printing and producing any agreements among underwriters,

underwriting agreements, and blue sky or legal investment memoranda, any selling agreements and any amendments thereto or other documents in connection with the offering, sale or delivery of the Shares to be disposed of; (f) all expenses in connection with the qualification of the Shares to be disposed of for offering and sale under state securities laws, including the fees and disbursements of counsel for the underwriters in connection with such qualification and in connection with any blue sky and legal investment surveys; (g) the filing fees incident to securing any required review by any securities exchange on which the Common Stock is then traded or listed of the terms of the sale of the Shares to be disposed of and the trading or listing of all such Shares on each such exchange; (h) the costs of preparing stock certificates; (i) the costs and charges of the Company's transfer agent and registrar; and (j) the fees and disbursements of any custodians, solicitation agents, information agents and/or exchange agents. Registration Expenses shall not include underwriting discounts and underwriters' commissions attributable to the Shares being registered for sale on behalf of the Selling Holders, which shall be paid by the Selling Holders.

Section 9. Miscellaneous.

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

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

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

9.4 Assignment. This Agreement shall be binding on and inure to the benefit of and be enforceable by the parties hereto and with respect to the Company, its respective successors and assigns, and any Permitted Transferees.

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

9.6 Severability. In the event that any part of this Agreement is declared by a court or other judicial or administrative body to be null, void or unenforceable, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Agreement shall remain in full force and effect.

9.7 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given: (i) on the date of service if served personally on the party to whom notice is to be given; (ii) on the day of transmission if sent via facsimile transmission to the facsimile number of the recipient's principal executive office, and telephonic confirmation of receipt is obtained promptly after completion of transmission; (iii) on the day after delivery to Federal Express or similar overnight courier or the Express Mail service maintained by the United States Postal Service; or (iv) on the fifth day after mailing, if mailed to the party to whom notice is to be given, by first class mail, registered or certified, postage prepaid and properly addressed, to any party at its principal executive office or at such other office as any party shall give by notice in accordance with the terms hereof, and if to any other Holder, the address indicated for such Holder in the Company's stock transfer records with a copy, so long as Daisytek owns any Shares, to Daisytek. Any party may change its address for the purpose of this Section 9.7 by giving the other party written notice of its new address in the manner set forth above.

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

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

9.10 Waivers. The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term, but such waiver shall be effective only if it is in writing signed by the Company and the Holders of a majority of the Shares. Unless otherwise expressly provided in this Agreement, no delay or omission on the part of any party in exercising any right or privilege

under this Agreement shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right or privilege under this Agreement operate as a waiver of any other right or privilege under this Agreement nor shall any single or partial exercise of any right or privilege preclude any other or further exercise thereof or the exercise of any other right or privilege under this Agreement. No failure by either party to take any action or assert any right or privilege hereunder shall be deemed to be a waiver of such right or privilege in the event of the continuation or repetition of the circumstances giving rise to such right unless expressly waived in writing by the party against whom the existence of such waiver is asserted.

9.11 Amendment and Modification. This Agreement may not be amended or modified in any respect except by a written agreement signed by the Company and the Holders of a majority of the Shares.

9.12 Section and Paragraph Headings. The section and paragraph headings in this Agreement are for reference purposes only, are not part of the agreement of the parties hereto, and shall not affect the meaning or interpretation of this Agreement. All references to days or months shall be deemed references to calendar days or months. All references to "\$" shall be deemed references to United States dollars. Unless the context otherwise requires, any reference to a "Section" shall be deemed to refer to a section of this Agreement. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, unless otherwise specifically provided, they shall be deemed to be followed by the words "without limitation." This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing the document to be drafted.

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

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

DAISYTEK INTERNATIONAL CORPORATION

By: _____

DAISYTEK, INCORPORATED

By: _____

PFSWEB, INC.

By: _____

TRANSITION SERVICES AGREEMENT

This Transition Services Agreement ("Agreement") is entered into on _____, 1999 between Daisytek, Incorporated, a Delaware corporation ("Daisytek") and PFSweb, Inc., a Delaware corporation ("PFSweb").

RECITALS

WHEREAS, Daisytek and PFSweb have entered into that certain Master Separation Agreement (the "Separation Agreement"; terms defined therein having the same meaning when used herein) pursuant to which the PFS Business will be separated from Daisytek; and

WHEREAS, the PFS Business has been operated as a subsidiary of Daisytek, and Daisytek has provided various services to the PFS Business; and

WHEREAS, Daisytek has caused PFSweb to be incorporated in order to effect the separation of the PFS Business; and

WHEREAS, PFSweb desires to continue to obtain various services from Daisytek and Daisytek desires to continue to provide such services;

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

ARTICLE 1

DEFINITIONS

Section 1.01. Defined Terms. In addition to the words and terms defined in the Separation Agreement which shall have the same meaning when used herein, the following terms, as used herein, shall have the following meanings:

"Transition Period" means the period commencing on the Contribution Date and ending on the Distribution Date; provided, however, that with respect to any Transition Service, PFSweb may, upon notice to Daisytek, either (i) terminate the Transition Period as of any date prior to the Distribution Date or (ii) extend the Transition Period to a date beyond the Distribution Date, but not later than the one year anniversary date of the Contribution Date.

"Transition Services" means any services provided by Daisytek, its Affiliates or their suppliers to the PFS Business prior to the Contribution Date which PFSweb reasonably identifies and requests in writing that Daisytek provide to it during the Transition Period; provided that Transition Services expressly excludes any such services which shall be provided to PFSweb or its Affiliates pursuant to the terms of any of the Ancillary Agreements; and provided, further, that Transition Services expressly excludes any such services which Daisytek would not be legally permitted to provide to a third party.

ARTICLE 2

TRANSITION SERVICES

Section 2.01. Transition Services.

(a) During the Transition Period, Daisytek shall use its reasonable best efforts to provide, or cause its Affiliates to use their reasonable best efforts to provide, to PFSweb or its Affiliates all Transition Services in the manner and at a relative level of service consistent in all material respects with that provided by Daisytek or its Affiliates to the PFS prior to the Contribution Date. PFSweb shall use all commercially reasonable efforts to obtain all such Transition Services from a source other than Daisytek and its Affiliates on or prior to the conclusion of the Transition Period; provided that, if PFSweb cannot obtain any Transition Service from a source other than Daisytek and its Affiliates and such Transition Service is necessary in order to operate the PFS Business in substantially the same manner as it was conducted immediately prior to the Contribution Date, then, subject to Section 2.01(e) below, Daisytek (or its Affiliates) shall provide such Transition Service to PFSweb (or its Affiliates) for an additional period not to exceed six months.

(b) In consideration of the provision of Transition Services hereunder, PFSweb shall pay to Daisytek (i) an amount equal to the cost historically allocated to the PFS Business as of the Contribution Date for such service, adjusted to reflect any changes in the nature, cost or level of the services so provided, or (ii) if no such cost has historically been allocated to the PFS Business for any Transition Service, then an amount equal to that portion of the total cost borne by Daisytek which Daisytek would have allocated to the PFS Business under its internal allocation formula as of the Contribution Date, plus any direct user charges or similar type charges resulting from PFSweb's or its Affiliates' use of such services which are not otherwise recouped by Daisytek hereunder, plus, without duplication, any other reasonable charges necessary to make Daisytek whole for the provision of such services.

(c) Except as otherwise agreed, Daisytek shall invoice PFSweb on a monthly basis for the Transition Services to be provided hereunder, and payment shall be due 30 days after invoice date.

(d) Notwithstanding the foregoing, (i) for any Transition Services which include payment of payroll or wages to employees of the PFS Business, PFSweb shall pay all necessary amounts (including payroll taxes) to Daisytek prior to the payment thereof by Daisytek and (ii) any charges to Daisytek from outside suppliers for the provision of Transition Services shall be submitted by Daisytek to PFSweb for payment and, except as Daisytek may otherwise agree in connection with any individual statement of charges which has been submitted to Daisytek, PFSweb hereby agrees to make payment therefor either to such outside supplier in accordance with the payment terms of such outside supplier or to Daisytek if Daisytek is required to pay such outside supplier, (in which event such payment shall be made on or before the date on which Daisytek notifies PFSweb it intends to make payment, or if Daisytek does not provide such notice, immediately after Daisytek provides notice to PFSweb that Daisytek has made such payment).

(e) In the event PFSweb shall request Daisytek to continue to provide any Transition Service beyond the expiration of the Transition Period, Daisytek and PFSweb shall negotiate in good faith and at arm's length the terms of any such extension, including fair market value pricing for all such services.

Section 2.02. Insurance Coverage.

(a) During the Transition Period, Daisytek shall, subject to insurance market conditions and other factors beyond its control, maintain policies of insurance, including for the benefit of PFSweb or any of its Affiliates, directors, officers, employees or other covered parties (collectively, the "PFSweb Covered Parties") which are comparable to those maintained generally by Daisytek. Except as provided below, during the Transition Period, such policies of insurance shall cover PFSweb Covered Parties for liabilities and losses insured prior to the Contribution Date. To the extent of any self insured or other loss retentions with respect to insurance policies in force, PFSweb shall, during the Transition Period, be solely responsible for any losses, damages and related expenses, not included in Daisytek insurance program expense allocations to PFSweb, incurred by itself or PFSweb Covered Parties within such loss or retentions and shall not seek reimbursement or indemnification thereof from Daisytek.

(b) Daisytek will use all commercially reasonable efforts to assist PFSweb Covered Parties in asserting claims under applicable insurance policies, and shall adjust such policies, as necessary and practicable, to provide for PFSweb and Daisytek recoveries consistent with their respective interests and shall not unduly favor one insured party over another.

(c) PFSweb shall promptly pay or reimburse Daisytek, as the case may be, for premium expenses, and PFSweb Covered Parties shall promptly pay or reimburse Daisytek for any costs and expenses which Daisytek may incur in connection with the insurance coverages maintained pursuant to this Section, including any subsequent premium adjustments. All payments and reimbursements by PFSweb and PFSweb Covered Parties to Daisytek shall be made in accordance with the payment terms set forth in Section 2.01(c) above.

(d) To the full extent permitted by contract and law, except as otherwise set forth herein, the control and administration of such insurance policies, including claims against insurance policies and any modifications to terms or conditions of insurance policies, shall remain with Daisytek (except that any such action taken by Daisytek shall treat fairly all insured parties and their respective claims and shall not unduly favor one insured party over another). PFSweb and PFSweb Covered Parties shall make all reasonable efforts to facilitate Daisytek's control and administration of such policies.

(e) Daisytek's insurance policies shall be applicable to PFSweb losses, as follows: (i) with respect to any insurance policies where coverage is provided on a "claims-made" or "occurrences reported" basis, any events, acts or omissions which may give rise to insured losses, or damages which give rise to claims thereunder, must have occurred and notice given to Daisytek prior to expiration of the Transition Period; (ii) with respect to other types of insurance policies, including those provided on an "occurrence" basis, any events, acts or omissions giving rise to any insured

losses or damages must have occurred prior to expiration of the Transition Period; and (iii) with respect to all claims under all insurance policies, coverage for events, acts or omissions shall be interpreted consistent with the terms of such policies and the intent of the foregoing clauses (i) and (ii).

(f) With respect to claims covered by the insurance policies described herein, Daisytek and PFSweb shall control the investigation, defense and settlement of all claims; provided, however, that PFSweb may not effect any settlement with respect to any such claim without Daisytek's prior written consent (which consent shall not be unreasonably withheld or delayed) unless such settlement (i) will have no direct impact on Daisytek's future insurance recoveries under relevant insurance policies, and (ii) will require that only PFSweb or PFSweb Covered Parties, and not Daisytek or its insurers, assume financial responsibility for the settlement (under applicable deductibles or self-insured retentions), any related expenses and/or any subsequent premium adjustments.

(g) From and after expiration of the Transition Period, except as provided herein, PFSweb, shall be responsible for obtaining and maintaining insurance programs for its risk of loss and such insurance arrangements shall be separate and apart from Daisytek's insurance programs. Notwithstanding the foregoing, (i) Daisytek, upon the request of PFSweb, shall use all commercially reasonable efforts to assist PFSweb in the transition to its own separate insurance programs from and after the Transition Period, and shall provide PFSweb with any information that is in the possession of Daisytek and is reasonably available and necessary to either obtain insurance coverages for PFSweb or to assist PFSweb in preventing unintended self-insurance, (ii) each of Daisytek and PFSweb, at the request of the other, shall cooperate with and use commercially reasonable efforts to assist the other in recoveries from claims made under any insurance policy for the benefit of any insured party; and (iii) neither Daisytek nor PFSweb, nor any of their Affiliates, shall take any action which would intentionally jeopardize or otherwise interfere with either party's ability to collect any proceeds payable pursuant to any insurance policy.

Section 2.03. Records and Accounts. Daisytek shall maintain accurate records and accounts of all transactions relating to the Transition Services performed by it pursuant to this Agreement. Such records and accounts shall be maintained separately from Daisytek's own records and accounts and shall reflect such information as would normally be examined by an independent accountant in performing a complete audit pursuant to United States generally accepted auditing standards for the purpose of certifying financial statements, and, to the extent required by applicable law, to permit verification thereof by governmental agencies. PFSweb shall have the right to inspect and copy, upon reasonable notice and at reasonable intervals during Daisytek's regular office hours, the separate records and accounts maintained by Daisytek relating to the Transition Services.

Section 2.04. Directors and Officers of PFSweb and Daisytek.

(a) Nothing contained in this Agreement shall be deemed to relieve the officers and directors of PFSweb from the performance of their duties or limit the exercise of their powers in

accordance with PFSweb's Certificate of Incorporation or the laws of the State of Delaware. The services of Daisytek's officers and employees which are rendered to PFSweb under this Agreement shall at all times be in accordance with the reasonable instructions of PFSweb's officers and in accordance with the historical business practice of the PFS Business.

(b) Nothing in this Agreement shall limit or restrict the right of any of Daisytek's directors, officers or employees to engage in any other business or devote their time and attention in part to the management or other aspects of any other business, whether of a similar nature, or to limit or restrict the right of Daisytek to engage in any other business or to render services of any kind to any corporation, firm, individual, trust or association.

(c) Except as expressly provided as part of any Transition Service hereunder, Daisytek shall have no authority pursuant to this Agreement to commit PFSweb or any of its Affiliates to any obligation in any manner or to use PFSweb's name or to enter into any contract or commitment on behalf of PFSweb.

Section 2.05. Limitation of Liability.

(a) Daisytek shall have no liability whatsoever to PFSweb or any of its Affiliates for any error, act or omission in connection with the Transition Services to be rendered by Daisytek to PFSweb hereunder unless any such error, act or omission derives from willful misconduct or gross negligence. IN NO EVENT SHALL DAISYTEK BE LIABLE FOR ANY SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING, WITHOUT LIMITATION, LOSS OF PROFITS, REVENUES OR DATA), WHETHER BASED ON BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE) OR OTHERWISE, WHETHER OR NOT DAISYTEK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE. THE LIABILITY OF DAISYTEK FOR DAMAGES OR ALLEGED DAMAGES HEREUNDER, WHETHER IN CONTRACT, TORT OR ANY OTHER LEGAL THEORY, IS LIMITED TO, AND WILL NOT EXCEED, PFSWEB'S DIRECT DAMAGES.

(b) Daisytek is an independent contractor and when its employees act under the terms of this Agreement, they shall be deemed at all times to be under the supervision and responsibility of Daisytek; and, notwithstanding any reimbursement of labor costs as provided herein or otherwise, no person employed by Daisytek and acting under the terms of this Agreement shall be deemed to be acting as agent or employee of PFSweb or any customer of PFSweb for any purpose whatsoever.

ARTICLE 3

MISCELLANEOUS

Section 3.01. Entire Agreement. This Agreement, including all the Ancillary Agreements, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

Section 3.02. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware regardless of the laws that might otherwise govern under principles of conflicts of laws applicable thereto.

Section 3.03. Descriptive Headings. The descriptive headings herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

Section 3.04. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by telecopy with answer back, by express or overnight mail delivered by a nationally recognized air courier (delivery charges prepaid), or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at their chief executive offices, or to such other address as the party to whom notice is given may have previously furnished to the others in writing in the manner set forth above. Any notice or communication delivered in person shall be deemed effective on delivery. Any notice or communication sent by telecopy or by air courier shall be deemed effective on the first Business Day at the place at which such notice or communication is received following the day on which such notice or communication was sent. Any notice or communication sent by registered or certified mail shall be deemed effective on the fifth Business Day at the place from which such notice or communication was mailed following the day on which such notice or communication was mailed.

Section 3.05. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their legal representatives and successors, and each Subsidiary and each Affiliate of the parties hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement, except as otherwise expressly provided herein. Except as otherwise expressly set forth herein, this Agreement may not be assigned or transferred to any other unaffiliated Person without the prior written consent of each of the parties hereto.

Section 3.06. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

Section 3.07. Dispute Resolution. Resolution of any and all disputes arising from or in connection with this Agreement, whether based on contract, tort, or otherwise (collectively, "Disputes"), shall be exclusively governed by and settled in accordance with the provisions of this Section. The parties hereto shall use all commercially reasonable efforts to settle all Disputes without resorting to mediation, arbitration, litigation or other third party dispute resolution mechanisms. If any Dispute remains unsettled, a party hereto may commence proceedings hereunder by first delivering a written notice from a Senior Vice President or comparable executive officer of such party (the "Demand") to the other parties providing a reasonable description of the Dispute to the others and expressly requesting mediation hereunder. The parties hereby agree to submit all Disputes to non-binding mediation before a mediator reasonably

acceptable to all parties involved in such Dispute. If the parties are unable to agree upon a mediator or if, after such mediation, the parties subject to such mediation disagree regarding the mediator's recommendation, such Dispute shall be submitted to arbitration under the terms hereof, which arbitration shall be final, conclusive and binding upon the parties, their successors and assigns. The arbitration shall be conducted in Dallas, Texas by three arbitrators acting by majority vote (the "Panel") selected by agreement of the parties, or, failing such agreement, appointed pursuant to the commercial arbitration rules of the American Arbitration Association, as amended from time to time (the "AAA Rules"). If an arbitrator so selected becomes unable to serve, his or her successors shall be similarly selected or appointed. The arbitration shall be conducted pursuant to the Federal Arbitration Act and such procedures as the parties subject to such arbitration (each, a "Party") may agree, or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing: (i) each Party shall have the right to inspect the books and records of the other Party that are reasonably related to the Dispute; (ii) each Party shall provide to the other, reasonably in advance of any hearing, copies of all documents which a Party intends to present in such hearing; and (iii) each Party shall be allowed to conduct reasonable discovery through written requests for information, document requests, requests for stipulation of fact and depositions, the nature and extent of which discovery shall be determined by the Parties; provided that if the Parties cannot agree on the terms of such discovery, the nature and extent thereof shall be determined by the Panel which shall take into account the needs of the Parties and the desirability of making discovery expeditious and cost effective. The award shall be in writing and shall specify the factual and legal basis for the award. The Panel shall apportion all costs and expenses of arbitration, including the Panel's fees and expenses and fees and expenses of experts, between the prevailing and non-prevailing Party as the Panel deems fair and reasonable. The parties hereto agree that monetary damages may be inadequate and that any party by whom this Agreement is enforceable shall be entitled to seek specific performance of the arbitrators' decision from a court of competent jurisdiction, in addition to any other appropriate relief or remedy. Notwithstanding the foregoing, in no event may the Panel award consequential, special, exemplary or punitive damages. Any arbitration award shall be binding and enforceable against the parties hereto and judgment may be entered thereon in any court of competent jurisdiction.

Section 3.08. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

Section 3.09. Failure or Indulgence Not Waiver; Remedies Cumulative. No failure or delay on the part of any party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or

further exercise thereof or of any other right. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

Section 3.10. Amendment. No change or amendment will be made to this Agreement except by an instrument in writing signed on behalf of each of the parties to be bound by such change or amendment.

Section 3.11. Authority. Each of the parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement, (b) the execution, delivery and performance of this Agreement by it has been duly authorized by all necessary corporate or other action, (c) it has duly and validly executed and delivered this Agreement, and (d) this Agreement is a legal, valid and binding obligation, enforceable against it in accordance with its terms subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

Section 3.12. Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When a reference is made in this Agreement to an Article or a Section, such reference shall be to an Article or Section of this Agreement unless otherwise indicated.

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

DAISYTEK, INCORPORATED

By: _____
Name:
Title:

PFSWEB, INC.

By: _____
Name:
Title:

TRANSACTION MANAGEMENT SERVICES AGREEMENT

THIS AGREEMENT is dated as of _____, 1999 and is by and between PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("PFS") having an address at 500 North Central Expressway, Plano, Texas 75074, and DAISYTEK, INC., a Delaware corporation ("DZTK") having an address at 500 North Central Expressway, Plano, Texas 75074.

PFS provides various transaction management services, including Web order processing, inbound call handling, order entry, warehousing and distribution, credit management and collection and information management, to manufacturers, resellers and marketers of products.

DZTK wishes to retain PFS to provide the transaction management services described herein.

IN CONSIDERATION of the mutual covenants contained herein, the parties agree as follows:

1. Statement of Work; Products. During the term of this Agreement, and subject to the terms and conditions set forth herein, PFS will provide the transaction management services described in one or more Statement(s) of Work (a "Statement of Work") as shall be mutually agreed from time to time. Each Statement of Work may be amended, modified or revised by mutual agreement of the parties from time to time during the term of this Agreement, although neither party has any obligation to agree to any amendment, modification or revision. PFS will provide its services with respect to various products designated by DZTK (the "Products"), provided, however, that the type, nature, dimensions, etc., of the Products shall be set forth in a Statement of Work. Upon mutual agreement, the type or nature of the Products may be modified during the term of this Agreement.

2. Distribution Center. During the term of this Agreement, and as more fully set forth in a Statement of Work, Products will be shipped by, or on behalf of, DZTK to, and stored by PFS at, the PFS distribution center(s) identified in a Statement of Work (the "Distribution Center"). DZTK is responsible for all freight, handling and importation costs in delivering the Products to the Distribution Center. DZTK is responsible for administering and managing the shipment and delivery of Products to the Distribution Center and will provide PFS with prior notice and rolling projections of Product shipments and deliveries as described in a Statement of Work. PFS will unpack and store all Products delivered to the Distribution Center in accordance with the terms of a Statement of Work. Except as otherwise set forth in a Statement of Work, PFS has no liability for in-bound or out-bound freight or shipping costs.

3. Sales and Marketing. DZTK is responsible for all sales and marketing of Products. Except as expressly set forth in the Statement of Work in connection with the services to be provided by it hereunder, PFS shall not be deemed an agent or representative of DZTK, nor shall PFS have any authority to make any representation or commitment on the part of DZTK. For all purposes, DZTK, and not PFS, shall be deemed the seller of all Products to customers. DZTK shall retain title to all Products and PFS shall not be deemed a consignee of any Products, nor shall PFS pledge, encumber or grant any security interest in or to the Products at any time. DZTK shall at all times comply with all applicable laws, rules and regulations in respect of its sales and marketing of Products.

4. Information; Exceptions. DZTK will provide PFS with all information reasonably necessary for PFS to perform its obligations hereunder, including information regarding the Products, part numbers, descriptions, costs, pricing, documentary requirements, technical information, call center scripts, customer and credit guidelines and limits, returns criteria and similar information, including Product training, etc. PFS has no responsibility with respect to the adequacy, accuracy or validity of any information, guidelines, limits or criteria provided by DZTK to it hereunder. In performing its services hereunder, PFS shall act in accordance with, and shall be entitled to rely upon, the

instructions and authorizations received from DZTK, including all customer, credit, shipping, allocation, pricing and other information and instruction as shall be provided to PFS hereunder.

5. Sales Tax. Except as set forth in the Statement of Work, PFS shall have no liability for the payment, collection or remittance to the proper authorities, of all sales tax, use tax or other tax arising from the sale of Products to customers, the storage of Products in the Distribution Center or the shipment of Products to or from any jurisdiction, and DZTK shall indemnify and hold PFS harmless in respect thereof (including any costs incurred by PFS in connection with any audit or inquiry of any taxing authority). DZTK is responsible to determine the applicable taxing jurisdictions arising in connection with the sale of Products and for providing PFS with copies of any resale certificates or other documentation as may be required by PFS to perform its services hereunder.

6. Insurance; Shrinkage. PFS shall provide insurance for all Products stored in the Distribution Center. Such insurance (which may include self-insurance) shall cover damage, destruction, theft and other risks as shall be set forth in the Statement of Work. DZTK shall provide PFS with all information necessary for such insurance. PFS shall provide DZTK with a certificate of insurance and, upon request, will provide for not less than ten days' prior notice of nonrenewal or cancellation. PFS shall perform its services hereunder in accordance the performance standards set forth in the Statement of Work and the ordinary level of care it provides its customers. Subject to the applicable terms of the Statement of Work, in the event of any loss or damage to Products arising from the failure of PFS to provide such level of care, PFS shall, as its sole liability, reimburse DZTK for the actual cost of such lost or damaged Products.

7. Returns. All sales of Products shall be subject to the then prevailing return policies of DZTK. DZTK shall at all times be solely responsible for any credits or other amounts payable to customers, and PFS shall have no responsibility to return, rebate or refund any portion of any fee received by it hereunder in respect thereof. All returns shall be administered in accordance with the terms set forth in the Statement of Work. In the event any return is the result of a misshipment or error on the part of PFS, PFS shall, as its sole liability, be responsible for all return freight for such Product.

8. Service Fees. DZTK shall pay to PFS the service fees and other amounts described in the Statement of Work. All fees and other amounts shall be payable in accordance with the payment and invoice terms set forth in the Statement of Work.

9. Pricing Modification. The service fees payable hereunder are based upon the assumptions regarding the scope of work set forth in the Statement of Work. The Statement of Work contains a list of certain key assumptions and certain parameters regarding acceptable deviations from these assumptions. In the event that, for any month (calculated on an annualized basis), the operations of DZTK (and the scope of work provided by PFS in respect of such operations) are outside these parameters, PFS shall notify DZTK of such event and the modification of the fees payable hereunder which PFS shall propose as a result thereof. Such fee modification proposal shall be based upon, but not limited to, the increase or other material change in the scope of work and services to be provided by PFS arising from the deviation from the aforesaid assumptions. DZTK shall then have a period of 30 days (or such longer period as shall be reasonable under the circumstances) to restore its operations to within the aforesaid parameters. If DZTK is successful in doing so, as determined (on an annualized basis) during the month (or such longer period as shall be reasonable under the circumstances) following such cure period, then the proposed fee modification shall not go into effect. If DZTK is unsuccessful in doing so (as determined as aforesaid), then the proposed fee modification shall go into effect for all succeeding months until DZTK shall restore its operations to within the aforesaid parameters for two consecutive months. Notwithstanding the foregoing, the parties agree to use their respective best efforts to negotiate in good faith any proposed fee modification, and either party may request that any proposed fee modification be submitted to non-binding mediation. In addition, following the second anniversary of the date hereof, if PFS' costs in providing its services hereunder have increased by more than 5% (on an annual basis) from the prior year, PFS may propose, by written notice to DZTK, a modification of the fees payable hereunder. Such fee

modification proposal shall be based upon, but not limited to, the increase or other material change in PFS' costs and shall be accompanied by a reasonable description of such increased costs. The parties agree to use their respective best efforts to negotiate in good faith any proposed fee modification, and either party may request that any proposed fee modification be submitted to non-binding mediation. If the parties are unable to agree upon any such proposed fee modification, and within 30 days thereafter, PFS shall elect to terminate this Agreement without cause (as provided in Section 12 below) and shall deliver the requisite termination notice, then, in such event, PFS shall be deemed to have delivered such termination notice as of the date of its delivery of its proposed fee modification.

10. Trademark. DZTK represents that it has a valid and effective license and right to use all trademarks, tradenames and logos which appear on the Products and to sell the Products to its customers and shall continue to have such rights during the term of this Agreement, free of any claim of infringement or unlawful use, and DZTK shall indemnify and hold PFS harmless in respect of all matters arising in connection therewith.

11. Confidentiality. Each party acknowledges that in implementing and performing this Agreement each party shall disclose and make available to the other certain confidential and proprietary information, including without limitation, customer and Product information. Each party agrees to utilize such information solely for the purpose of this Agreement and to keep and maintain all such information as confidential. The provisions of this Section shall survive any termination or non-renewal of this Agreement. This Section shall not apply to any information (i) which (without violation of this Section) is or becomes generally known in the industry or (ii) which is provided by a third party without violation by such third party of any obligation of non-disclosure. Each party may disclose the existence of this Agreement (but not its terms), the identity of the parties hereto and the general nature of the Products.

12. Term. This Agreement shall be in effect for a five year term commencing from the date of execution hereof and shall be automatically renewed for successive one year periods thereafter unless either party shall give notice in writing of non-renewal not less than 180 days prior to any termination date. In the event either party shall breach any of the terms or provisions of this Agreement, and such breach shall not be cured within 30 days after notice, the non-breaching party shall have the right to terminate this Agreement upon ten days written notice. In addition (i) DZTK may terminate this Agreement, without cause, upon 180 days prior written notice, (ii) PFS may terminate this Agreement, without cause, upon 365 days prior written notice (subject to the provisions of Section 9 above regarding the date upon which such notice shall be deemed to have been given in the event of a proposed fee modification) and (iii) within 30 days following the effective date of any "Change in Control" of DZTK, PFS may, upon 90 days prior written notice, terminate this Agreement. As used herein, a "Change in Control" shall be deemed to occur upon (i) any sale or transfer of all or substantially all of the assets of DZTK or (ii) the acquisition by any party (or group of related parties) (other than a financial institution, mutual fund or other party holding shares for investment purposes), whether in one transaction or a series of related transactions, of 25% or more of the issued and outstanding shares of capital stock of DZTK. Any termination of this Agreement shall not affect any obligations of any party incurred or arising prior to such termination. During the applicable period following the giving of any notice of nonrenewal, or termination without cause, the parties shall continue to fully perform all of their respective obligations hereunder and shall cooperate with each other in order to effect an orderly winding down and transition. DZTK is solely responsible, at its cost and expense, to remove all Products and other DZTK property from the Distribution Center on or prior to the effective date of termination of this Agreement. DZTK shall reimburse PFS for all reasonable costs and expenses incurred by PFS in assisting DZTK with such removal efforts. In addition, in the event DZTK shall terminate this Agreement without cause, DZTK shall pay to PFS the Termination Fee set forth in the Statement of Work.

13. Indemnification; Limitation of Liability. Each party agrees to indemnify, defend and hold the other harmless from and against and in respect of any and all costs, expenses (including without limitation, attorneys fees and litigation and investigation costs), losses, damages and

claims arising from, in connection with or relating to (i) any actual or alleged infringement or misappropriation by the indemnifying party of any patent, copyright, trademark, service mark, tradename, trade secret or any other intellectual property right of any other party (whether domestic or foreign), (ii) any failure by the indemnifying party to comply with or breach of any governmental, regulatory, judicial or municipal law, rule, regulation, decision, order, directive, ordinance or ruling of any kind or (iii) any product liability, personal injury or property damage claim of any kind or any negligence or misconduct on the part of the indemnifying party; provided, however, that, notwithstanding anything contained herein, no party shall be liable for consequential damages of any kind (even if advised of the possibility or likelihood thereof) or any punitive damages in connection with any claim or matter arising under or in connection with this Agreement. Except as expressly set forth herein or in the Statement of Work, no party makes any representation or warranty of any kind. The provisions of this Section shall survive any termination or non-renewal of this Agreement.

14. Restrictive Covenant. PFS covenants and agrees that, during the term of this Agreement, it will not, on its own behalf, engage in the business of selling or distributing, on a wholesale basis, any Products. The foregoing shall not apply to (i) the provision by PFS of transaction management services to third parties who may be engaged in the business of selling or distributing, on a wholesale basis, any Products or (ii) any existing arrangements to which PFS may be a party on the date hereof (and any modifications, supplements or amendments thereto arising after the date hereof).

15. Miscellaneous. Each party to this Agreement is an independent contractor and this Agreement does not create a joint venture or partnership of any kind, nor shall this Agreement give rise to any fiduciary duty on the part of any party to any other party. Except as contemplated herein, no party shall have the authority to represent, warrant or bind any other party. This Agreement, and the rights, powers and duties set forth herein, shall bind and inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement may not be assigned or delegated to any unaffiliated third party. This Agreement may only be amended, modified or waived by an instrument in writing duly executed and delivered by each of the parties hereto to be bound by such amendment, modification or waiver. This agreement (and the Statement of Work hereto) sets forth the entire understanding and agreement of the parties and supersedes any prior agreement. The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver thereof, and any waiver of any term or provision hereof shall not be construed as a waiver of any other term or provision. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall be deemed one and same instrument. In the event that any one or more of the provisions of this Agreement shall be determined to be void or unenforceable by a court of competent jurisdiction or by law, such determination shall not render this Agreement invalid or unenforceable and the remaining provisions hereof shall remain in full force and effect. All notices hereunder shall be in writing and shall be effective upon receipt at each party's address for notice set forth herein. EACH PARTY WAIVES TRIAL BY JURY.

15. Arbitration. Any and all disputes arising hereunder shall, upon the request of either party, be submitted to binding arbitration in Dallas, Texas, in accordance with the rules and regulations of the American Arbitration Association and each party agrees that (i) all notices and service of process in respect thereof may be delivered or served at the address for notice set forth herein, (ii) each party consents and submits to the jurisdiction of said arbitration and to the state and federal courts of the State of Texas for the purpose of enforcing the provisions of this Agreement and entering and judgment in respect thereof and (iii) the foregoing shall not preclude the joinder of any party in respect of any third party claim or the pursuit of equitable remedies.

IN WITNESS WHEREOF, the parties hereto, being duly authorized, have executed and delivered this Agreement as of the day and year above written.

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name:
Title:

DAISYTEK, INC.

By: _____
Name:
Title:

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
PFSWEB, INC.

(Pursuant to Section 245 of the General
Corporation Law of the State of Delaware)

PFSWEB, INC., a corporation organized and existing under the General Corporation Law of the State of Delaware, does hereby certify as follows:

1. The name of the corporation is PFSweb, Inc. (the "Corporation").

2. The date of filing the original Certificate of Incorporation of the Corporation with the Secretary of State of the State of Delaware was June 28, 1999.

3. This Amended and Restated Certificate of Incorporation amends and restates the provisions of the Certificate of Incorporation of the Corporation, as amended, and was duly adopted by the written consent of the sole stockholder of the Corporation entitled to vote thereon in accordance with the provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware (the "GCL").

4. The Certificate of Incorporation of the Corporation, as amended and restated hereby, shall, upon its filing with the Secretary of State of the State of Delaware, read in its entirety as follows:

FIRST: The name of the corporation is PFSweb, Inc. (the "Corporation").

SECOND: The registered office of the Corporation in the State of Delaware is located at 1013 Centre Road, Wilmington, County of New Castle, Delaware 19805. The name of the registered agent of the Corporation at such address is Corporation Service Company.

THIRD: The purpose of the Corporation and the nature and objects of the business to be transacted, promoted, and carried on are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is 41,000,000 shares, divided into two classes as follows: (i) 1,000,000 shares of Preferred Stock, par value \$1.00 per share ("Preferred Stock"); and (ii) 40,000,000 shares of Common Stock, no par value per share ("Common Stock").

Upon the filing of this Amended and Restated Certificate of Incorporation, all previously issued and outstanding shares of common stock, \$.01 par value, of the Corporation shall be automatically converted into an equal number of shares of Common Stock, no par value, of the Corporation.

The designations and the powers, preferences, rights, qualifications, limitations, and restrictions of the Preferred Stock and the Common Stock of the Corporation are as follows:

A. Provisions Relating to the Preferred Stock.

1. The Preferred Stock may be issued from time to time in one or more classes or series, the shares of each class or series to have such designations and powers, preferences, and rights, and qualifications, limitations, and restrictions thereof as are stated and expressed herein and in the resolution or resolutions providing for the issuance of such class or series adopted by the board of directors of the Corporation as hereafter prescribed.

2. Authority is hereby expressly granted to and vested in the board of directors of the Corporation to authorize the issuance of the Preferred Stock from time to time in one or more classes or series, and with respect to each such class or series of the Preferred Stock, to fix and state by the resolution or resolutions from time to time adopted providing for the issuance thereof the following:

(i) whether or not such class or series is to have voting rights, full, special, or limited, or is to be without voting rights, and whether or not such class or series is to be entitled to vote as a separate class either alone or together with the holders of one or more other classes or series of stock;

(ii) the number of shares to constitute such class or series and the designations thereof;

(iii) the preferences, and relative, participating, optional, or other special rights, if any, and the qualifications, limitations, or restrictions thereof, if any, with respect to any such class or series;

(iv) whether or not the shares of any such class or series shall be redeemable at the option of the Corporation or the holders thereof or upon the happening of any specified event, and, if redeemable, the redemption price or prices (which may be payable in the form of cash, notes, securities, or other property), and the time or times at which, and the terms and conditions upon which, such shares shall be redeemable and the manner of redemption;

(v) whether or not the shares of such class or series shall be subject to the operation of retirement or sinking funds to be applied to the purchase or redemption of such shares for retirement, and, if such retirement or sinking fund or funds are to be established, the annual amount thereof, and the terms and provisions relative to the operation thereof;

(vi) the dividend rate, whether dividends are payable in cash, stock of the Corporation, or other property, or a combination thereof, the conditions upon which and the times when such dividends are payable, the preference to or the relation to the payment of

dividends payable on any other class or classes or series of stock, whether such dividends shall be cumulative or noncumulative, and if cumulative, the date or dates from which such dividends shall accumulate;

(vii) the preferences, if any, and the amounts thereof which the holders of any such class or series shall be entitled to receive upon the voluntary and involuntary dissolution of, or upon any distribution of the assets of, the Corporation;

(viii) whether or not the shares of any such class or series, at the option of the Corporation or the holder thereof or upon the happening of any specified event, shall be convertible into or exchangeable for the shares of any other class or classes or of any other series of the same or any other class or classes of stock, securities, or other property of the Corporation and the conversion price or prices or ratio or ratios or the rate or rates at which such exchange may be made, with such adjustments, if any, as shall be stated and expressed or provided for in such resolution or resolutions; and

(ix) such other special rights and provisions with respect to any such class or series as may to the board of directors of the Corporation seem advisable.

3. The shares of each class or series of the Preferred Stock may vary from the shares of any other class or series thereof in any or all of the foregoing respects. The board of directors of the Corporation may increase the number of shares of Preferred Stock designated for any existing class or series by a resolution adding to such class or series authorized and unissued shares of the Preferred Stock not designated for any other class or series. The board of directors of the Corporation may decrease the number of shares of the Preferred Stock designated for any existing class or series by a resolution, subtracting from such series unissued shares of the Preferred Stock designated for such class or series, and the shares so subtracted shall become authorized, unissued, and undesignated shares of the Preferred Stock.

B. Provisions Relating to the Common Stock.

1. Each holder of Common Stock shall be entitled to one vote for each share of Common Stock standing in such holder's name on the records of the Corporation on each matter submitted to a vote of the stockholders.

2. Subject to the rights of the holders of the Preferred Stock, the holders of the Common Stock shall be entitled to receive when, as, and if declared by the board of directors of the Corporation, out of funds legally available therefor, dividends payable in cash, stock or otherwise.

3. Upon any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock and the holders of any bonds, debentures, or other obligations of the Corporation shall have been paid in full the amounts to which they shall be entitled (if any), or a sum sufficient for such payment in full shall have been set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests, to the exclusion of the

holders of the Preferred Stock and any bonds, debentures, or other obligations of the Corporation.

C. General.

1. Subject to the foregoing provisions of this Certificate of Incorporation, the Corporation may issue shares of its Preferred Stock and Common Stock from time to time for such consideration (in any form, but not less in value than the par value thereof) as may be fixed by the board of directors of the Corporation, which is expressly authorized to fix the same in its absolute and uncontrolled discretion subject to the foregoing conditions. Shares so issued for which the consideration shall have been paid or delivered to the Corporation shall be deemed fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments in respect of such shares.

2. The Corporation shall have authority to create and issue rights and options entitling their holders to purchase or otherwise acquire shares of the Corporation's capital stock of any class or series or other securities of the Corporation, and such rights and options shall be evidenced by instrument(s) approved by the board of directors of the Corporation or any committee thereof. The board of directors of the Corporation or any committee thereof shall be empowered to set the exercise price, duration, times for exercise, and other terms of such options or rights; provided, however, that the consideration to be received (which may be in any form) for any shares of capital stock subject thereto shall have a value not less than the par value thereof.

FIFTH: No contract or transaction between the Corporation and one or more of its directors, officers, or stockholders or between the Corporation and any person (as used herein "person" means any other corporation, partnership, association, firm, trust, joint venture, political subdivision, or instrumentality) or other organization in which one or more of its directors, officers, or stockholders are directors, officers, or stockholders, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose, if: (i) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved, or ratified by the board of directors, a committee thereof (to the extent permitted by applicable law), or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

SIXTH: 1. To the extent not prohibited by law, the Corporation shall indemnify any person who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or

investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation, or is or was serving in any capacity at the request of the Corporation for any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (an "Other Entity"), against judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees and disbursements). Persons who are not directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board of Directors at any time specifies that such persons are entitled to the benefits of this Article.

1. The Corporation shall, from time to time, reimburse or advance to any director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys' fees and disbursements, incurred in connection with any Proceeding, in advance of the final disposition of such Proceeding; provided, however, that, if required by the GCL, such expenses incurred by or on behalf of any director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer (or other person indemnified hereunder), to repay any such amount so advanced, if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such director, officer or other person is not entitled to be indemnified for such expenses.

2. The rights to indemnification, and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification or reimbursement or advancement of expenses may have or hereafter be entitled under any statute, this Amended and Restated Certificate of Incorporation, the By-laws of the Corporation, any agreement, any vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

3. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article shall continue as to a person who has ceased to be a director or officer (or other person indemnified hereunder) and shall inure to the benefit of the executors, administrators, legatees and distributees of such person.

4. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of an Other Entity, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article, the By-laws or under Section 145 of the GCL or any other provision of law.

5. The provisions of this Article shall be a contract between the Corporation, on the one hand, and each director and officer who serves in such capacity at any time while this Article is

in effect and any other person indemnified hereunder, on the other hand, pursuant to which the Corporation and each such director, officer, or other person intend to be legally bound. No repeal or modification of this Article shall affect any rights or obligations with respect to any state of facts then or theretofore existing or thereafter arising or any proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such state of facts.

6. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article shall be enforceable by any person entitled to such indemnification or reimbursement or advancement of expenses in any court of competent jurisdiction. The burden of proving that such indemnification or reimbursement or advancement of expenses is not appropriate shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) to have made a determination prior to the commencement of such action that such indemnification or reimbursement or advancement of expenses is proper in the circumstances nor an actual determination by the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) that such person is not entitled to such indemnification or reimbursement or advancement of expenses shall constitute a defense to the action or create a presumption that such person is not so entitled. Such a person shall also be indemnified for any expenses incurred in connection with successfully establishing his or her right to such indemnification or reimbursement or advancement of expenses, in whole or in part, in any such proceeding.

7. Any director or officer of the Corporation serving in any capacity for (a) another corporation of which a majority of the shares entitled to vote in the election of its directors is held, directly or indirectly, by the Corporation or (b) any employee benefit plan of the Corporation or any corporation referred to in clause (a) shall be deemed to be doing so at the request of the Corporation.

8. Any person entitled to be indemnified or to reimbursement or advancement of expenses as a matter of right pursuant to this Article may elect to have the right to indemnification or reimbursement or advancement of expenses interpreted on the basis of the applicable law in effect at the time of the occurrence of the event or events giving rise to the applicable Proceeding, to the extent permitted by law, or on the basis of the applicable law in effect at the time such indemnification or reimbursement or advancement of expenses is sought. Such election shall be made, by a notice in writing to the Corporation, at the time indemnification or reimbursement or advancement of expenses is sought; provided, however, that if no such notice is given, the right to indemnification or reimbursement or advancement of expenses shall be determined by the law in effect at the time indemnification or reimbursement or advancement of expenses is sought.

SEVENTH: All the powers of the Corporation, insofar as the same may be lawfully vested by this Amended and Restated Certificate of Incorporation in the board of directors, are hereby conferred upon the board of directors. In furtherance and not in limitation of that power, the board of directors shall have the power, upon the affirmative vote of a majority of the Classified Directors (as hereinafter defined) at a meeting lawfully convened, to make, adopt, alter, amend, and repeal from time to time the Bylaws of the Corporation and to make from time to time new Bylaws of the Corporation, subject to the right of the stockholders entitled to vote thereon to adopt, alter, amend, and repeal Bylaws made by the board of directors or to make new Bylaws; provided,

however, that the stockholders of the Corporation shall be entitled to adopt, alter, amend, or repeal Bylaws made by the board of directors or to make new Bylaws solely upon the affirmative vote of the holders of at least a majority of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon.

EIGHTH: Except for the provisions of Article SIXTH and NINTH herein, the Corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by law and all rights conferred on officers, directors, and stockholders herein are granted subject to this reservation.

NINTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the GCL, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or amendment of this Article NINTH by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation arising from an act or omission occurring prior to the time of such repeal or amendment. In addition to the circumstances in which a director of the Corporation is not personally liable as set forth in the foregoing provisions of this Article NINTH, a director shall not be liable to the Corporation or its stockholders to such further extent as permitted by any law hereafter enacted, including without limitation any subsequent amendment to the GCL.

TENTH: 1. The number of directors constituting the board of directors shall be fixed by, or in the manner provided in, the Bylaws of the Corporation, provided that such number shall be no fewer than three and no more than ten (plus such number of directors as may be elected from time to time pursuant to the terms of any series of Preferred Stock that may be issued and outstanding from time to time). The directors of the Corporation (exclusive of directors who are elected pursuant to the terms of, and serve as representatives of the holders of, any series of Preferred Stock) shall be referred to herein as "Classified Directors" and shall be divided into three classes, with the first class referred to herein as "Class I," the second class as "Class II," and the third class as "Class III." Each class shall consist as nearly as possible of one-third (1/3) of the total number of directors making up the entire board of directors. The term of office of the initial Class I directors shall expire at the 2000 annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the 2001 annual meeting of stockholders, and the term of office of the initial Class III directors shall expire at the 2002 annual meeting of stockholders, with each director to hold office until his successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his successor shall have been duly elected and qualified.

1. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by

series or by class (excluding holders of Common Stock), to elect directors, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of this Amended and Restated Certificate of Incorporation (including any amendment to this Amended and Restated Certificate of Incorporation that designates a series of Preferred Stock), and such directors so elected by the holders of Preferred Stock shall not be divided into classes pursuant to this Article TENTH unless expressly provided by such terms.

2. Any or all Classified Directors may be removed, with cause, upon the affirmative vote of the holders of a majority of the outstanding shares of each class of capital stock of the Corporation then entitled to vote at an election of such Classified Directors.

3. Election of directors, whether Classified Directors or otherwise, need not be by written ballot.

ELEVENTH: The Corporation expressly elects to be governed by Section 203 of the GCL.

TWELFTH: Special meetings of stockholders of the Corporation may be called by the board of directors pursuant to a resolution adopted by a majority of the Classified Directors then serving, by the Chairman of the board of directors, or by any holder or holders of at least twenty-five percent (25%) of the outstanding shares of capital stock of the Corporation then entitled to vote on any matter for which the respective special meeting is being called.

THIRTEENTH: Notwithstanding any other provisions of this Amended and Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of at least a majority of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon shall be required to amend, alter, or repeal any one or more of Articles of this Amended and Restated Certificate of Incorporation.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be executed and attested on this day of September, 1999.

PFSWEB, INC.

By:
Thomas J. Madden, Vice President

ATTEST:

Harvey H. Achatz, Secretary

BYLAWS
OF
PFSWEB, INC.

a Delaware corporation

BYLAWS
OF
PFSWEB, INC.
a Delaware corporation

PREAMBLE

These Bylaws are subject to, and governed by, the General Corporation Law of the State of Delaware (the "Delaware Corporation Law") and the Certificate of Incorporation of PFSweb, Inc., a Delaware corporation (the "Corporation"), as amended, restated, modified or otherwise in effect from time to time (the "certificate of incorporation"). In the event of a direct conflict between the provisions of these Bylaws and the mandatory provisions of the Delaware Corporation Law or the provisions of the certificate of incorporation of the Corporation, such provisions of the Delaware Corporation Law or the certificate of incorporation of the Corporation, as the case may be, will be controlling.

ARTICLE ONE: OFFICES

1.1 Registered Office and Agent. The registered office and registered agent of the Corporation shall be as designated from time to time by the appropriate filing by the Corporation in the office of the Secretary of State of the State of Delaware.

1.2 Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the board of directors may from time to time determine or as the business of the Corporation may require.

ARTICLE TWO: MEETINGS OF STOCKHOLDERS

2.1 Annual Meeting. An annual meeting of stockholders of the Corporation shall be held each calendar year on such date and at such time as shall be designated from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. At such meeting, the stockholders shall elect directors and transact such other business as may be properly brought before the meeting.

2.2 Special Meeting. A special meeting of the stockholders may be called by the

board of directors pursuant to a resolution adopted by a majority of the Directors then serving, by the Chairman of the Board, or by any holder or holders of record of at least 25% of the outstanding shares of capital stock of the Corporation then entitled to vote on any matter for which the respective special meeting is being called (considered for this purpose as one class). A special meeting shall be held on such date and at such time as shall be designated by the person(s) calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. Only such business shall be transacted at a special meeting as may be stated or indicated in the notice of such meeting given in accordance with these Bylaws or in a duly executed waiver of notice of such meeting.

2.3 Place of Meetings. An annual meeting of stockholders may be held at any place within or without the State of Delaware designated by the board of directors. A special meeting of stockholders may be held at any place within or without the State of Delaware designated in the notice of the meeting or a duly executed waiver notice of such meeting. Meetings of stockholders shall be held at the principal office of the Corporation unless another place is designated for meetings in the manner provided herein.

2.4 Notice. Written or printed notice stating the place, day, and time of each meeting of the stockholders and, in case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary, or the officer or person(s) calling the meeting, to each stockholder of record entitled to vote at such meeting. If such notice is to be sent by mail, it shall be directed to such stockholder at his address as it appears on the records of the Corporation, unless he shall have filed with the Secretary of the Corporation a written request that notices to him be mailed to some other address, in which case it shall be directed to him at such other address. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy and shall not, at the beginning of such meeting, object to the transaction of any business because the meeting is not lawfully called or convened, or who shall, either before or after the meeting, submit a signed waiver of notice, in person or by proxy.

2.5 Notice of Stockholder Business; Nomination of Director Candidates.

(a) At annual or special meetings of the stockholders, only such business shall be conducted as shall have been brought before meetings (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the board of directors, or (iii) by any stockholder of the Corporation who (1) is a stockholder of record at the time of giving of notice provided for in this Section 2.5, (2) meets the requirements set forth in Section 2.2 above, (3) shall be entitled to vote at such meeting, and (4) complies with the notice procedures set forth in this Section 2.5.

(b) Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible to serve as directors. Nominations of persons for election to the board of directors may be made at an annual or special meeting of

stockholders (i) by or at the direction of the board of directors, (ii) by any stockholder of the Corporation who (1) is a stockholder of record at the time of giving of notice provided for in this Section 2.5, (2) meets the requirements set forth in Section 2.2 above, (3) shall be entitled to vote at such meeting, and (4) complies with the notice procedures set forth in this Section 2.5.

(c) A stockholder must give timely, written notice to the Secretary of the Corporation to nominate directors at an annual or special meeting pursuant to Section 2.5(b) hereof or to propose business to be brought before an annual or special meeting pursuant to clause (iii) of Section 2.5(a) hereof. To be timely in the case of an annual meeting, a stockholder's notice must be received at the principal executive offices of the Corporation not less than 120 days before the first anniversary of the preceding year's annual meeting. To be timely in the case of a special meeting or in the event that the date of the annual meeting is changed by more than 30 days from such anniversary date, a stockholder's notice must be received at the principal executive offices of the Corporation no later than the close of business on the tenth day following the earlier of the day on which notice of the meeting date was mailed or public disclosure of the meeting date was made. Such stockholder's notice shall set forth (i) with respect to each matter, if any, that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) with respect to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director, all information relating to such person (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director) that is required under the Securities Exchange Act of 1934, as amended, (iii) the name and address, as they appear on the Corporation's records, of the stockholder proposing such business or nominating such persons (as the case may be), and the name and address of the beneficial owner, if any, on whose behalf the proposal or nomination is made, (iv) the class and number of shares of capital stock of the Corporation that are owned beneficially and of record by such stockholder of record and by the beneficial owner, if any, on whose behalf the proposal or nomination is made, and (v) any material interest or relationship that such stockholder of record and/or the beneficial owner, if any, on whose behalf the proposal or nomination is made may respectively have in such business or with such nominee. At the request of the board of directors, any person nominated for election as a director shall furnish to the Secretary of the Corporation the information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

(d) Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted, and no person shall be nominated to serve as a director, at an annual or special meeting of stockholders, except in accordance with the procedures set forth in this Section 2.5 and elsewhere in these Bylaws. The chairman of the meeting shall, if the facts warrant, determine that business was not properly brought

before the meeting, or that a nomination was not made, in accordance with the procedures prescribed by these Bylaws and, if he shall so determine, he shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted and any defective nomination shall be disregarded. Notwithstanding the foregoing provisions of these Bylaws, a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 2.5.

2.6 Voting List. Prior to each meeting of stockholders, the Secretary or other officer of the Corporation who has charge of the Corporation's stock ledger, either directly or through another officer appointed by him or through a transfer agent appointed by the board of directors, shall prepare a complete list of stockholders entitled to vote thereat, arranged in alphabetical order and showing the address of each stockholder and number of shares of capital stock registered in the name of each stockholder. To the extent required by law, such list shall be kept on file at a place within the city where the meeting is to be held, which place shall be specified in the notice of meeting or a duly executed waiver of notice of such meeting or, if not so specified, at the place where the meeting is to be held and shall be open to examination by any stockholder during ordinary business hours. Such list shall be produced at such meeting and kept at the meeting at all times during such meeting and may be inspected by any stockholder who is present.

2.7 Quorum. The holders of a majority of the outstanding shares of capital stock entitled to vote on a matter, present in person or by proxy, shall constitute a quorum at any meeting of stockholders, except as otherwise provided by law, the certificate of incorporation of the Corporation, or these Bylaws. If a quorum shall not be present, in person or by proxy, at any meeting of stockholders, the stockholders entitled to vote thereat who are present, in person or by proxy (or, if no stockholder entitled to vote is present, any officer of the Corporation), may adjourn the meeting from time to time without notice other than announcement at the meeting (unless the board of directors, after such adjournment, fixes a new record date for the adjourned meeting), until a quorum shall be present, in person or by proxy. At any adjourned meeting at which a quorum shall be present, in person or by proxy, any business may be transacted which may have been transacted at the original meeting had a quorum been present; provided that, if the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

2.8 Required Vote; Withdrawal of Quorum. When a quorum is present at any meeting, the vote of the holders of a least a majority of the outstanding shares of capital stock entitled to vote thereat who are present, in person or by proxy, shall decide any question brought before such meeting, unless the question is one on which, by express provision of law, the certificate of incorporation of the Corporation, or these Bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such question. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.9 Method of Voting; Proxies. Except as otherwise provided in the certificate of incorporation of the Corporation or by law, each outstanding share of capital stock, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. Elections of directors need not be by written ballot. At any meeting of stockholders, every stockholder having the right to vote may vote either in person or by a proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. Each such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after three years from the date of its execution, unless otherwise provided in the proxy. If no date is stated in a proxy, such proxy shall be presumed to have been executed on the date of the meeting at which it is to be voted. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power or unless otherwise made irrevocable by law.

2.10 Record Date. For the purpose of determining stockholders entitled (a) to notice of or to vote at any meeting of stockholders or any adjournment thereof, (b) to receive payment of any dividend or other distribution or allotment of any rights, or (c) to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, for any such determination of stockholders, such date in any case to be not more than 60 days and not less than ten days prior to such meeting nor more than 60 days prior to any other action. If no record date is fixed:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(iii) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.11 Conduct of Meeting. The Chairman of the Board, if such office has been filled, and, if not or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer, if such office has been filled, and, if not or if the Chief Executive Officer is absent or otherwise unable to act, the President shall preside at all meetings of stockholders. The Secretary shall keep the records of each meeting of stockholders. In the absence or inability to act of any such officer, such officer's duties shall be performed by the officer given the authority to act for such absent or non-acting officer under these Bylaws or by some person appointed by the meeting.

2.12 Inspectors. The board of directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxies and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count, and tabulate all votes, ballots, or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request, or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

ARTICLE THREE: DIRECTORS

3.1 Management. The business and property of the Corporation shall be managed by the board of directors. Subject to the restrictions imposed by law, the certificate of incorporation of the Corporation, or these Bylaws, the board of directors may exercise all the powers of the Corporation.

3.2 Number; Qualification; Election; Term. The number of directors constituting the board of directors shall be fixed by the board of directors, provided that such number shall be no fewer than three and no more than ten (plus such number of directors as may be elected from time to time pursuant to the terms of any series of Preferred Stock that may be issued and outstanding from time to time). The directors of the Corporation (exclusive of directors who are elected pursuant to the terms of, and serve as representatives of the holders of, any series of Preferred Stock) shall be referred to herein as "Classified Directors" and shall be divided into three classes, with the first class referred to herein as "Class I," the second class as "Class II," and the third class as "Class III." Each class shall consist as nearly as possible of one-third (1/3) of the total number of directors making up the entire board of directors. The term of office of the initial Class I directors shall expire at the 2000 annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the 2001 annual meeting of stockholders, and the term of office of the initial Class III directors shall expire at the 2002 annual meeting of stockholders, with each director to hold office until his successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his successor shall have been duly elected and qualified.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by the Corporation shall have the right, voting separately by series or by class (excluding holders of common stock), to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of the certificate of incorporation (including any amendment to the certificate of incorporation that designates a series of preferred stock).

3.3 Change in Number. No decrease in the number of directors constituting the entire board of directors shall have the effect of shortening the term of any incumbent director.

3.4 Removal; Vacancies. Unless otherwise provided by the terms of the certificate of incorporation (including any amendment thereto that designates a series of preferred stock), any or all directors may be removed, with or without cause, at any annual or special meeting of stockholders, upon the affirmative vote of the holders of a majority of the outstanding shares of each class of capital stock then entitled to vote in person or by proxy at an election of such directors, provided that notice of the intention to act upon such matter shall have been given in the notice calling such meeting. Unless otherwise provided by the terms of the certificate of incorporation (including any amendment thereto that designates a series of preferred stock), any vacancies occurring in the board of directors caused by death, resignation, retirement, disqualification, removal or other termination from office of any directors may be filled by the vote of a majority of the board of directors then in office, though less than a quorum, or by the affirmative vote, at any annual meeting or any special meeting of the stockholders called for the purpose of filling such directorship, of the holders of a majority of the outstanding shares of each class of capital stock then entitled to vote in person or by proxy at an election of such directors. Each successor director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his respective successor shall have been duly elected and qualified.

3.5 Meetings of Directors. The directors may hold their meetings and may have an office and keep the records of the Corporation, except as otherwise provided by law, in such place or places within or without the State of Delaware as the board of directors may from time to time determine or as shall be specified in the notice of such meeting or duly executed waiver of notice of such meeting.

3.6 First Meeting. Each newly elected board of directors may hold its first meeting for the purpose of organization and the transaction of business, if a quorum is present, immediately after and at the same place as the annual meeting of stockholders, and no notice of such meeting shall be necessary.

3.7 Election of Officers. At the first meeting of the board of directors after each annual meeting of stockholders at which a quorum shall be present, the board of directors shall elect the officers of the Corporation.

3.8 Regular Meetings. Regular meetings of the board of directors shall be held at such times and places as shall be designated from time to time by resolution of the board of directors. Notice of such regular meetings shall not be required.

3.9 Special Meetings. Special meetings of the board of directors shall be held whenever called by the Chairman of the Board, the Chief Executive Officer, the President, or any director.

3.10 Notice. The Secretary shall give notice of each special meeting to each director at least 24 hours before the meeting. Notice of any such meeting need not be given to any director who, either before or after the meeting, submits a signed waiver of notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to him. The purpose of any special meeting shall be specified in the notice or waiver of notice of such meeting.

3.11 Quorum; Majority Vote. At all meetings of the board of directors, a majority of the directors fixed in the manner provided in these Bylaws shall constitute a quorum for the transaction of business. If at any meeting of the board of directors there is less than a quorum present, a majority of those present or any director solely present may adjourn the meeting from time to time without further notice. Unless the act of a greater number is required by law, the certificate of incorporation of the Corporation, or these Bylaws, the act of a majority of the directors present at a meeting at which a quorum is in attendance shall be the act of the board of directors. At any time that the certificate of incorporation of the Corporation provides that directors elected by the holders of a class or series of stock shall have more or less than one vote per director on any matter, every reference in these Bylaws to a majority or other proportion of directors shall refer to a majority or other proportion of the votes of such directors.

3.12 Procedure. At meetings of the board of directors, business shall be transacted in such order as from time to time the board of directors may determine. The Chairman of the Board, if such office has been filled, and, if not or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer, if such office has been filled, and, if not or if the Chief Executive Officer is absent or otherwise unable to act, the President shall preside at all meetings of the board of directors. In the absence or inability to act of either such officer, a chairman shall be chosen by the board of directors from among the directors present. The Secretary of the Corporation shall act as the secretary of each meeting of the board of directors unless the board of directors appoints another person to act as secretary of the meeting. The board of directors shall keep regular minutes of its proceedings which shall be placed in the minute book of the Corporation.

3.13 Presumption of Assent. A director of the Corporation who is present at the meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward any dissent by certified or registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to

a director who voted in favor of such action.

3.14 Compensation. The board of directors shall have the authority to fix the compensation, including fees and reimbursement of expenses, paid to directors for attendance at regular or special meetings of the board of directors or any committee thereof; provided, that nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity or receiving compensation therefor.

ARTICLE FOUR: COMMITTEES

4.1 Designation. The board of directors may, by resolution adopted by a majority of the entire board of directors, designate one or more committees, including without limitation an Executive Committee, Audit Committee and Compensation Committee as hereinafter described.

4.2 Number; Qualification; Term. Each committee shall consist of one or more directors appointed by resolution adopted by a majority of the entire board of directors. The number of committee members may be increased or decreased from time to time by resolution adopted by a majority of the entire board of directors. Each committee member shall serve as such until the earliest of (i) the expiration of his term as director, (ii) his resignation as a committee member or as a director, or (iii) his removal as a committee member or as a director.

4.3 Authority. Each committee, to the extent expressly provided in the resolution establishing such committee, shall have and may exercise all of the authority of the board of directors in the management of the business and the property of the Corporation except to the extent expressly restricted by such resolution or by law, the certificate of incorporation of the Corporation, or these Bylaws.

4.4 Committee Changes. The board of directors shall have the power at any time to fill vacancies in, to change the membership of, and to discharge any committee.

4.5 Alternate Members of Committees. The board of directors may designate one or more directors as alternate members of any committee. Any such alternate member may replace any absent or disqualified member at any meeting of the committee. If no alternate committee members have been so appointed to a committee or each such alternate committee member is absent or disqualified, the member or members of such committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member.

4.6 Regular Meetings. Regular meetings of any committee may be held without notice at such time and place as may be designated from time to time by the committee and communicated to all members thereof.

4.7 Special Meetings. Special meetings of any committee may be held whenever called by any committee member. The committee member calling any special meeting shall cause notice of such special meeting, including therein the time and place of such special meeting, to be given to each committee member at least two days before such special meeting. Neither the business to be transacted at, nor the purpose of, any special meeting of any committee need be specified in the notice or waiver of notice of any special meeting.

4.8 Quorum; Majority Vote. At meetings of any committee, a majority of the number of members designated by the board of directors shall constitute a quorum for the transaction of business. If a quorum is not present at a meeting of any committee, a majority of the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present. The act of a majority of the members present at any meeting at which a quorum is in attendance shall be the act of a committee, unless the act of a greater number is required by law, the certificate of incorporation of the Corporation, or these Bylaws.

4.9 Minutes. Each committee shall cause minutes of its proceedings to be prepared and shall report the same to the board of directors upon the request of the board of directors. The minutes of the proceedings of each committee shall be delivered to the Secretary of the Corporation for placement in the minute books of the Corporation.

4.10 Compensation. Committee members may, by resolution of the board of directors, be allowed a fixed sum and expenses of attendance, if any, for attending any committee meetings or a stated salary.

4.11 Responsibility. The designation of any committee and the delegation of authority to it shall not operate to relieve the board of directors or any director of any responsibility imposed upon it or such director by law.

4.12 Executive Committee. The board of directors may, by resolution, designate one or more of its members to constitute an Executive Committee. The Executive Committee shall have and may exercise all of the authority of the board in the management of the business and affairs of the Corporation within the limits permitted by law, including without limitation, the power and authority of the board: (i) to authorize the seal of the Corporation to be affixed to all papers; (ii) to declare a dividend; (iii) to authorize the issuance of stock; (iv) to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware Corporation Law; and (v) to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board, to fix any of the preference rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of shares for, shares of any other class or classes or any other series of the same of any other class or classes of stock of the Corporation.

4.13 Audit Committee. The board of directors may, by resolution, designate not less than two of the directors then in office to constitute an Audit Committee. At least a majority of

such directors must be independent of management and free from any relationship that, in the opinion of the board, would interfere with such directors' exercise of independent judgment as a committee member. The Audit Committee, if established, shall (i) consider and make recommendations to the board with respect to the employment of a firm of independent public accountants, (ii) confer with the Corporation's independent public accountants to determine the scope of the audit that such accountants will perform, (iii) receive reports from the independent public accountants and transmit such reports to the board, and after the close of the fiscal year, transmit to the board the financial statements certified by such accountants, (iv) inquire into, examine and make comments on the accounting procedures of the Corporation and the reports of the independent public accountants, and (v) consider and make recommendations to the board upon matters presented to it by the officers of the Corporation pertaining to the audit practices and procedures adhered to by the Corporation. The board may designate one member of the Audit Committee to act as its chairman.

4.14 Compensation Committee. The board of directors may, by resolution, designate not less than two of the directors then in office to constitute a Compensation Committee, at least one of which shall be independent of management so as to exercise independent judgment as a committee member. The Compensation Committee may exercise all of the authority of the board in administering the Corporation's executive compensation plans, including stock option plans.

4.15 Other Committees. In addition to the Executive Committee, the Audit Committee and the Compensation Committee, the board of directors may, by resolution, designate one or more other committees of the board in accordance with the provisions of these Bylaws.

ARTICLE FIVE: NOTICE

5.1 Method. Whenever by statute, the certificate of incorporation of the Corporation, or these Bylaws, notice is required to be given to any committee member, director, or stockholder and no provision is made as to how such notice shall be given, personal notice shall not be required and any such notice may be given (a) in writing, by mail, postage prepaid, addressed to such committee member, director, or stockholder at his address as it appears on the books or (in the case of a stockholder) the stock transfer records of the Corporation, or (b) by any other method permitted by law (including but not limited to overnight courier service, telegram, telex, or telefax). Any notice required or permitted to be given by mail shall be deemed to be delivered and given at the time when the same is deposited in the United States mail as aforesaid. Any notice required or permitted to be given by overnight courier service shall be deemed to be delivered and given at the time delivered to such service with all charges prepaid and addressed as aforesaid. Any notice required or permitted to be given by telegram, telex, or telefax shall be deemed to be delivered and given at the time transmitted with all charges prepaid and addressed as aforesaid.

5.2 Waiver. Whenever any notice is required to be given to any stockholder, director, or committee member of the corporation by statute, the certificate of incorporation of the Corporation, or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to

such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. Attendance of a stockholder, director, or committee member at a meeting shall constitute a waiver of notice of such meeting, except where such person attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE SIX: OFFICERS

6.1 Number; Titles, Term of Office. The officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, and such other officers as the board of directors may from time to time elect or appoint, including a Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Accounting Officer, one or more Vice Presidents (with each Vice President to have such descriptive title, if any, as the board of directors shall determine), Controller and a Treasurer. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, until his death, or until he shall resign or shall have been removed in the manner hereinafter provided. Any two or more offices may be held by the same person. None of the officers need be a stockholder or a director of the Corporation or a resident of the State of Delaware.

6.2 Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interest of the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

6.3 Vacancies. Any vacancy occurring in any office of the Corporation (by death, resignation, removal, or otherwise) may be filled by the board of directors.

6.4 Authority. Officers shall have such authority and perform such duties in the management of the Corporation as are provided in these Bylaws or as may be determined by resolution of the board of directors not inconsistent with these Bylaws.

6.5 Compensation. The compensation, if any, of officers and agents shall be fixed from time to time by the board of directors or any committee thereof; provided, however, that the board of directors may delegate the power to determine the compensation of any officer and agent (other than the officer to whom such power is delegated) to any other officer of the Corporation.

6.6 Chairman. The Chairman of the Board shall preside at all meetings of the board of directors and shall exercise such powers and perform such other duties as shall be determined from time to time by the board.

6.7 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and shall have general supervision and direction over the business of the Corporation, subject, however, to the control of the board and of any duly authorized committee

of directors. The Chief Executive Officer, in the absence of the Chairman, shall preside at each meeting of the stockholders and of the board. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and, in general, shall perform all duties incident to the office of Chief Executive Officer and such other duties as from time to time may be assigned to him by the board or by the By-laws.

6.8 President. The President shall assist the Chief Executive Officer in the management of and supervision and direction over the business and affairs of the Corporation, subject, however, to the direction of the Chief Executive Officer and the control of the board. The President may, in the absence of the Chairman and the Chief Executive Officer, preside, if present, at each meeting of the stockholders and of the board. The President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments except in cases in which the signing and execution thereof shall be expressly delegated by the board or by these By-laws to some other officer or agent of the Corporation or shall be required by statute otherwise to be signed or executed and, in general, shall perform all duties incident to the office of the President and such other duties as from time to time may be assigned to him by the board, by the By-laws or by the Chief Executive Officer.

6.9 Chief Operating Officer. The Chief Operating Officer shall be the chief operating officer of the Corporation, and shall assist the Chief Executive Officer and the President in the active management of and supervision and direction over the business and affairs of the Corporation, subject, however, to the direction of the Chief Executive Officer and the President and the control of the board. In the absence of the Chairman, the Chief Executive Officer and the President, the Chief Operating Officer shall preside at each meeting of the stockholders and of the board. He may, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and, in general, shall perform all duties incident to the office of Chief Operating Officer and such other duties as from time to time may be assigned to him by the board, by the By-laws, by the Chief Executive Officer or by the President.

6.10 Chief Financial Officer. The Chief Financial Officer shall be the chief financial officer of the Corporation, and shall render to the board, whenever the board may require, an account of the financial condition of the Corporation; shall make, sign and file financial, tax and similar reports to any state, federal or municipal government, agency or department, or any self-regulatory organization; shall provide for the continuous review of all accounts and reports; and shall perform such other duties as from time to time may be assigned to him by the board, by the By-laws or the Chief Executive Officer or President.

6.11 Vice Presidents. Each Vice President shall have such powers and perform such duties as from time to time may be assigned to such Vice President by the board or by the Chief Executive Officer or the President and shall perform such other duties as may be prescribed in the By-laws.

6.12 Secretary. The Secretary shall attend all meetings of the stockholders and shall record all the proceedings of the meetings of the board and of the stockholders in a book to be kept for that purpose, and shall perform like duties for committees of the board, when required. The Secretary shall give, or cause to be given, notice of all special meetings of the board and of the stockholders and shall perform such other duties as may be prescribed by the board or by the Chief Executive Officer, under whose supervision the Secretary shall be. The Secretary shall have custody of the corporate seal of the Corporation, and the Secretary, or an Assistant Secretary, shall have authority to impress the same on any instrument requiring it, and when so impressed the seal may be attested by the signature of the Secretary or by the signature of such Assistant Secretary. The board may give general authority to any other officer to impress the seal of the Corporation and to attest the same by such officer's signature. The Secretary or an Assistant Secretary may also attest all instruments signed by the Chairman, the Chief Executive Officer or the President. The Secretary shall have charge of all the books, records and papers of the Corporation relating to its organization and management, shall see that the reports, statements and other documents required by statute are properly kept and filed and, in general, shall perform all duties incident to the office of Secretary of a corporation and such other duties as may from time to time be assigned to the Secretary by the board, by the By-laws, by the Chief Executive Officer or by the President.

6.13 Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys and valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the board; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined by the board and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books or other records maintained for the purpose full and adequate account of all moneys received or paid for the account of the Corporation; have the right to require from time to time reports or statements giving such information as the Treasurer may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the Chairman, the Chief Executive Officer, the President or the board, whenever the Chairman, the Chief Executive Officer, the President or the board shall require the Treasurer so to do, an account of the financial condition of the Corporation and of all financial transactions of the Corporation; exhibit at all reasonable times the records and books of account to any of the Directors upon application at the office of the Corporation where such records and books are kept; disburse the funds of the Corporation as ordered by the board; and, in general, perform all duties incident to the office of Treasurer of a corporation and such other duties as may from time to time be assigned to the Treasurer by the board, by the By-laws or by the Chief Executive Officer or by the President.

6.14 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the board, by the By-laws or by the Chief Executive Officer or by the President.

ARTICLE SEVEN: CERTIFICATES AND STOCKHOLDERS

7.1 Certificates for Shares. Certificates for shares of stock of the Corporation shall be in such form as shall be approved by the board of directors. The certificates shall be signed by the Chairman of the Board, the Chief Executive Officer or the President or a Vice President and also by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer. Any and all signatures on the certificate may be a facsimile and may be sealed with the seal of the Corporation or a facsimile thereof. If any officer, transfer agent, or registrar who has signed, or whose facsimile signature has been placed upon, a certificate has ceased to be such officer, transfer agent, or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. The certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued and shall exhibit the holder's name and the number of shares.

7.2 Replacement of Lost or Destroyed Certificates. The board of directors may direct a new certificate or certificates to be issued in place of a certificate or certificates theretofore issued by the Corporation and alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate or certificates representing shares to be lost or destroyed. When authorizing such issue of a new certificate or certificates the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond with a surety or sureties satisfactory to the Corporation in such sum as it may direct as indemnity against any claim, or expense resulting from a claim, that may be made against the Corporation with respect to the certificate or certificates alleged to have been lost or destroyed.

7.3 Transfer of Shares. Shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, the Corporation or its transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

7.4 Registered Stockholders. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any

other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

7.5 Regulations. The board of directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer, and registration or the replacement of certificates for shares of stock of the Corporation.

7.6 Legends. The board of directors shall have the power and authority to provide that certificates representing shares of stock bear such legends as the board of directors deems appropriate to assure that the Corporation does not become liable for violations of federal or state securities laws or other applicable law.

ARTICLE EIGHT: MISCELLANEOUS; PROVISIONS

8.1 Dividends. Subject to provisions of law and the certificate of incorporation of the Corporation, dividends may be declared by the board of directors at any regular or special meeting and may be paid in cash, in property, or in shares of stock of the Corporation. Such declaration and payment shall be at the discretion of the board of directors.

8.2 Reserves. There may be created by the board of directors out of funds of the Corporation legally available therefor such reserve or reserves as the directors from time to time, in their discretion, consider proper to provide for contingencies, to equalize dividends, or to repair or maintain any property of the Corporation, or for such other purpose as the board of directors shall consider beneficial to the Corporation, and the board of directors may modify or abolish any such reserve in the manner in which it was created.

8.3 Books and Records. The Corporation shall keep correct and complete books and records of account, shall keep minutes of the proceedings of its stockholders and board of directors and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

8.4 Fiscal Year. The fiscal year of the Corporation shall be fixed by the board of directors.

8.5 Seal. The seal of the Corporation shall be such as from time to time may be approved by the board of directors.

8.6 Resignations. Any director, committee member, or officer may resign by so stating at any meeting of the board of directors or by giving written notice to the board of directors, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary. Such resignation shall take effect at the time specified therein or, if no time is specified therein, immediately upon its

receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

8.7 Securities of Other Corporations. The Chairman of the Board, the Chief Executive Officer, the President, or any Vice President of the Corporation shall have the power and authority to transfer, endorse for transfer, vote, consent, or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute, and deliver any waiver, proxy, or consent with respect to any such securities.

8.8 Telephone Meetings. Stockholders (acting for themselves or through a proxy), members of the board of directors, and members of any committee of the board of directors may participate in and hold a meeting of such stockholders, board of directors, or committee by means of a conference telephone or similar communications equipment by means of which persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

8.9 Action Without a Meeting.

(a) Except as otherwise provided in the certificate of incorporation of the Corporation, any action required by the Delaware Corporation Law to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders (acting for themselves or through a proxy) of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which the holders of all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Every written consent of stockholders shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the earliest dated consent delivered in the manner required by this Section 8.9(a) to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office, principal place of business, or such officer or agent shall be by hand or by certified or registered mail, return receipt requested.

(b) Except as otherwise provided in the certificate of incorporation of the Corporation or in these Bylaws, any action required or permitted to be taken at a meeting of the board of directors, or of any committee of the board of directors, may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by all the directors or all the committee members, as the case may be, entitled to vote with respect to the subject matter thereof, and such consent shall have the same force and effect as a vote of such directors or committee members, as the case may be, and may be stated as such in any certificate or document filed with the Secretary of State of the State of Delaware or in any certificate delivered to any person. Such consent or consents shall be filed with the minutes of proceedings of the board or committee, as the case may be.

8.10 Invalid Provisions. If any part of these Bylaws shall be held invalid or inoperative for any reason, the remaining parts, so far as it is possible and reasonable, shall remain valid and operative.

8.11 Mortgages, etc. With respect to any deed, deed of trust, mortgage, or other instrument executed by the Corporation through its duly authorized officer or officers, the attestation to such execution by the Secretary of the Corporation shall not be necessary to constitute such deed, deed of trust, mortgage, or other instrument a valid and binding obligation against the Corporation unless the resolutions, if any, of the board of directors authorizing such execution expressly state that such attestation is necessary.

8.12 Headings. The headings used in these Bylaws have been inserted for administrative convenience only and do not constitute matter to be construed in interpretation.

8.13 References. Whenever herein the singular number is used, the same shall include the plural where appropriate, and words of any gender should include each other gender where appropriate.

8.14 Amendments. The board of directors shall have the power, upon the affirmative vote of a majority of the Directors at a meeting lawfully convened, to make, adopt, alter, amend, and repeal from time to time these Bylaws and to make from time to time new Bylaws, subject to the right of the stockholders entitled to vote thereon to adopt, alter, amend, and repeal Bylaws made by the board of directors or to make new Bylaws; provided, however, that the stockholders of the Corporation shall be entitled to adopt, alter, amend, or repeal Bylaws made by the board of directors or to make new Bylaws solely upon the affirmative vote of the holders of at least a majority of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon.

NON-EMPLOYEE DIRECTOR STOCK OPTION AND RETAINER PLAN

OF

PFSWEB, INC.

PFSweb, Inc., a corporation organized under the laws of the State of Delaware, hereby adopts this Non-Employee Director Stock Option and Retainer Plan. The purposes of this Plan are as follows:

(1) To further the growth, development and financial success of the Company by providing incentives to its non-employee Directors by assisting them to become owners of the Company's Common Stock and thus to benefit directly from its growth, development and financial success.

(2) To enable the Company to obtain and retain the services of qualified non-employee Directors in order to contribute to the long-range success of the Company by providing and offering them an opportunity to become owners of the Company's Common Stock.

ARTICLE I

DEFINITIONS

Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary. The masculine pronoun shall include the feminine and neuter and the singular shall include the plural, where the context so indicates.

Section 1.1 - Board

"Board" shall mean the Board of Directors of the Company.

Section 1.2 - Code

"Code" shall mean the Internal Revenue Code of 1986, as amended.

Section 1.3 - Committee

"Committee" shall mean the Committee appointed by the Board, as provided in Section 6.1.

Section 1.4 - Company

"Company" shall mean PFSweb, Inc., a Delaware corporation.

Section 1.5 - Director

"Director" shall mean a member of the Board who is not an Employee.

Section 1.6 - Effective Date

"Effective Date" shall mean the date upon which this Plan shall be approved by the stockholder(s) of the Company in accordance with the Company's bylaws.

Section 1.7 - Employee

"Employee" shall mean any employee (as defined in accordance with the regulations and revenue rulings then applicable under Section 3401(c) of the Code) of the Company, or of any corporation which is then a Subsidiary.

Section 1.8 - Exchange Act

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.9 - Non-Qualified Option

"Non-Qualified Option" shall mean an Option which is not an incentive stock option and is not qualified under Section 422 of the Code.

Section 1.10 - Officer

"Officer" shall mean an officer of the Company, as defined in Rule 16a-1(f) under the Exchange Act, as such Rule may be amended in the future.

Section 1.11 - Option

"Option" shall mean an option to purchase Common Stock of the Company granted under the Plan.

Section 1.12 - Optionee

"Optionee" shall mean a Director to whom an Option is granted under the Plan.

Section 1.13 - Parent Corporation

"Parent Corporation" shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.14 - Plan

"Plan" shall mean this Non-Employee Director Stock Option and Retainer Plan of PFSweb, Inc.

Section 1.15 - Retainer

"Retainer" shall mean the annual cash retainer payable to each Director for services as a member of the Board and any committee or committees of the Board.

Section 1.16 - Rule 16b-3

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended in the future.

Section 1.17 - Secretary

"Secretary" shall mean the Secretary of the Company.

Section 1.18 - Securities Act

"Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.19 - Shares

"Shares" shall mean shares of the Company's Common Stock.

Section 1.20 - Spin-off

"Spin-off" shall mean the separation of the Company from its Parent Corporation by means of a distribution of Shares to the stockholders of such Parent Corporation or by such other means or transaction as such Parent Corporation shall determine in its discretion.

Section 1.21 - Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.22 - Termination

"Termination" shall mean the time when the Director no longer serves as a member of the Board, including, but not by way of limitation, a termination by resignation, discharge, death or retirement.

ARTICLE II

SHARES SUBJECT TO PLAN

Section 2.1 - Shares Subject to Plan

The Shares of stock subject to this Plan shall be shares of the Company's Common Stock. The aggregate number of such Shares which may be issued pursuant to this Plan shall be 250,000.

Section 2.2 - Unexercised Options

If any Option expires or is canceled without having been fully exercised, the number of Shares subject to such Option but as to which such Option was not exercised prior to its expiration or cancellation, may again be optioned hereunder, subject to the limitations of Section 2.1.

Section 2.3 - Changes in Company's Shares

In the event that the outstanding Shares of Common Stock of the Company are hereafter changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, or in the event of any other capital transaction involving the outstanding shares of Common Stock of the Company as the Committee shall determine in its sole discretion, whether by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, appropriate adjustments shall be made by the Committee in the number and kind of Shares which may be issued hereunder, including adjustment to the number, exercise price and kind of shares for the purchase of which Options may be granted, and further including adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued hereunder and adjustments to the number of Options set forth in Section 3.5 below.

ARTICLE III

RETAINER FEES AND GRANTING OF OPTIONS

Section 3.1 - Payment of Retainer

(a) Each Director may elect under the Plan to receive payment of any Retainer (in such installments as such Retainer shall be payable) in Shares, in lieu of cash, by submitting a written election (the "Notice of Election") to the Company. The Notice of Election shall become effective six months following the date of the Notice of Election or such earlier date as may be permitted under Rule 16b-3 (the "Election Effective Date") and, from and after the Election Effective Date, all Retainers payable to the electing Director (whether in installments or otherwise) shall be payable in Shares in the manner set forth herein. Notwithstanding the foregoing, no Election Effective Date shall be effective prior to the completion of the Spin-off unless the Parent Corporation shall otherwise consent thereto.

(b) Subject to the foregoing, each Notice of Election shall become effective on its Election Effective Date and shall continue in effect until revoked by the electing Director in a written notice of revocation (the "Notice of Revocation") delivered to the Company; provided, however, that no Notice of Revocation shall become effective until six months following the date of the Notice of Revocation or such earlier date as may be permitted under Rule 16b-3.

(c) If no Notice of Election is submitted to the Company, and prior to any Election Effective Date, all Retainers shall be payable in cash.

Section 3.2 - Number of Shares

The number of Shares to be issued to each Director electing to have his or her Retainer paid in Shares shall be determined by dividing the dollar amount of the then payable Retainer by the fair market value of the Shares as of the most recent trading day immediately prior to the date the Retainer is otherwise payable. No fractional Shares shall be issued and any fractional Share shall be rounded to the nearest whole Share. Subject to the terms and provisions hereof, all Shares shall be issued in certificate form in the name of the Director (or any designee) as promptly as practicable following the date of payment. For purposes of this Section, fair market value shall be determined in accordance with Section 4.2(b) below.

Section 3.3 - Eligibility

Each Director shall be granted Options in accordance with the provisions set forth herein.

Section 3.4 - Non-Qualification of Options

Each Option shall be a Non-Qualified Option.

Section 3.5 - Granting of Options

(a) Each person who is a Director on the Effective Date shall receive an Option to purchase 35,000 Shares as of such date.

(b) Each person who is a Director immediately following each annual meeting of stockholders of the Company shall receive an Option to purchase 10,000 Shares as of the date of such annual meeting; provided that such Director shall have attended at least 75% of the meetings of the Board (which may include committee meetings) during the most recent completed fiscal year prior to such annual meeting (or such shorter period of time as such Director held office during such fiscal year).

ARTICLE IV

TERMS OF OPTIONS

Section 4.1 - Option Agreement

Each Option shall be evidenced by a written Stock Option Agreement, which shall be executed by the Optionee and an authorized Officer of the Company and which shall contain such terms and conditions as are consistent with the Plan.

Section 4.2 - Option Price

(a) The price of the Shares subject to each Option shall be equal to 100% of the fair market value of such Shares on the date such Option is granted.

(b) For purposes of the Plan, the fair market value of a Share of the Company's Common Stock as of a given date shall be: (i) the closing price of a Share of the Company's Common Stock on the principal exchange on which Shares of the Company's Common Stock are then trading; or (ii) if such Common Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the Company's Common Stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the Company's Common Stock, in each case, on such date as reported by NASDAQ or such successor quotation system; or (iii) if such Common Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the Company's Common Stock, on such date, as determined in good faith by the Committee; or (iv) if the Company's Common Stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 4.3 - Commencement of Exercisability

(a) No Option may be exercised in whole or in part during the six months after such Option is granted.

(b) Subject to the provisions hereof, each Option granted hereunder shall be subject to the following cumulative vesting schedule:

(i) Until the date which is one year from the date of grant, the Option shall not be vested and shall not be exercisable as to any of the shares subject thereto; and

(ii) From and after the date which is one year from the date of grant, the Option shall vest and be fully exercisable.

(c) Notwithstanding the foregoing, all Options issued hereunder prior to the effective date of the Spin-off shall not vest or be exercisable until three years from the date of grant, provided, however, that as of the effective date of the Spin-off, all Options issued prior to the effective date of the Spin-off shall vest and be exercisable upon the later of (i) the effective date of the Spin-off and (ii) one year from the date of grant.

Section 4.4 - Expiration of Options

No Option may be exercised to any extent after the first to occur of the following events:

(i) The expiration of ten years from the date the Option was granted; or

(ii) Except in the case of any Optionee who is disabled (within the meaning of Section 22(e)(3) of the Code), the expiration of three months from the date of the Optionee's Termination for any reason other than such Optionee's death; or

(iii) With respect to an Option held by an Optionee who is disabled (within the meaning of Section 22(e)(3) of the Code), the expiration of one year from the date of the Optionee's Termination for any reason other than such Optionee's death unless the Optionee dies within said one-year period; or

(iv) The expiration of one year from the date of the Optionee's death with respect to all Options held by such Optionee.

Section 4.5 - Adjustments in Outstanding Options

In the event that the outstanding Shares of the stock subject to Options are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company, or in the event of any other capital transaction involving the outstanding shares of Common Stock of the Company as the Committee shall determine in its sole discretion, whether by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, the Committee shall make an appropriate and equitable adjustment in the number and kind of shares as to which all outstanding Options, or portions thereof then unexercised, shall be exercisable, to the end that after such event the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in an outstanding Option shall be made without change in the total price applicable to the Option or the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in Option price per share. Any such adjustment made by the Committee shall be final and binding upon all Optionees, the Company and all other interested persons.

ARTICLE V

EXERCISE OF OPTIONS

Section 5.1 - Person Eligible to Exercise

During the lifetime of the Optionee, only such Optionee may exercise an Option (or any portion thereof) granted to him; provided, however, that, unless otherwise prohibited by Rule 16b-3, an Optionee may transfer all or any portion of an Option to his spouse or immediate family member or any trust for the benefit thereof or as the Committee may otherwise permit in its sole discretion. After the death of the Optionee, any exercisable portion of an Option may, prior to the time when such portion becomes unexercisable under the Plan, be exercised by his personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

Section 5.2 - Partial Exercise

At any time and from time to time prior to the time when any exercisable Option or exercisable portion thereof becomes unexercisable under the Plan, such Option or portion thereof maybe exercised in whole or in part; provided, however, that the Company shall not be required to issue fractional shares and the Committee may, by the terms of the Option, require any partial exercise to be with respect to a specified minimum number of shares.

Section 5.3 - Manner of Exercise

An exercisable Option, or any exercisable portion thereof, may be exercised solely

by delivery to the Secretary or his office of all of the following prior to the time when such Option or such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement:

(a) Notice in writing signed by the Optionee or other person then entitled to exercise such Option or portion, stating that such Option or portion is exercised, such notice complying with all applicable rules established by the Committee; and

(b) (i) Full payment (in cash or by check) for the Shares with respect to which such Option or portion is thereby exercised; or

(ii) Subject to the consent of the Committee, (A) Shares of the Company's Common Stock owned by the Optionee duly endorsed for transfer to the Company or (B) subject to the timing requirements of Section 5.4, Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option, with a fair market value (as determined under Section 4.2(b)) on the date of Option exercise equal to the aggregate Option price of the Shares with respect to which such Option or portion is thereby exercised; or

(iii) Any combination of the consideration provided in the foregoing subsections (i) and (ii); and

(c) The payment to the Company (or other employer corporation) of all amounts which it is required to withhold under federal, state or local law in connection with the exercise of the Option; provided, that, with the consent of the Committee, any combination of the following may be used to make all or part of such payment: (i) Shares of the Company's Common Stock owned by the Optionee duly endorsed for transfer or (ii) subject to the timing requirements of Section 5.4, Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option, valued in accordance with Section 4.2(b) at the date of Option exercise; and

(d) Such representations and documents as the Committee, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Committee may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on Share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(e) In the event that the Option or portion thereof shall be exercised pursuant to Section 5.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option or portion thereof.

Section 5.4 - Certain Timing Requirements

Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option may be used to satisfy the Option price or the tax withholding consequences of such

exercise only with the consent of the Committee and (i) during the trading window period following the date of release of the quarterly or annual summary statement of sales and earnings of the Company as may be established by the Company for its senior executives from time to time or (ii) pursuant to an irrevocable written election by the Optionee to use Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option to pay all or part of the Option price or the withholding taxes made at least six months prior to the payment of such Option price or withholding taxes.

Section 5.5 - Conditions to Issuance of Stock Certificates

The Shares of stock issuable and deliverable upon the exercise of an Option, or any portion thereof, may be either previously authorized but unissued Shares or issued Shares which have then been reacquired by the Company. The Company shall not be required to issue or deliver any certificate or certificates for Shares of stock issued in payment of any Retainer or purchased upon the exercise of any Option or portion thereof prior to the fulfillment of all of the following conditions:

(a) The admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, if any such registration or qualification may be necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which may be necessary or advisable; and

(d) The payment to the Company (or other employer corporation) of all amounts which it is required to withhold under federal, state or local law in connection with the exercise of the Option; and

(e) The lapse of such reasonable period of time following the exercise of the Option as the Secretary of the Company may establish from time to time for reasons of administrative convenience.

ARTICLE VI

ADMINISTRATION

Section 6.1 - Committee

The Plan shall be administered by the Committee which shall consist of two or more

members of the Board, as the Board may appoint from time to time; provided, however that, in the absence of such appointment, the Plan shall be administered by the Board (in which event the term "Committee" as used herein shall mean the Board); provided, further, however, that, notwithstanding the foregoing, the Plan shall be construed, interpreted, implemented and administered in a manner sufficient to comply with the provisions of Rule 16b-3, and, in particular, in order to provide that the members of the Committee shall at all times satisfy the requirements set forth therein.

Section 6.2 - Duties and Powers of Committee

It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the Options and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules.

Section 6.3 - Majority Rule

The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

Section 6.4 - Compensation; Professional Assistance; Good Faith Actions

Members of the Committee shall receive such compensation for their services as members as may be determined by the Board. All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and its Officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Optionees, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Options, and all members of the Committee shall be fully protected by the Company in respect to any such action, determination or interpretation.

ARTICLE VII

OTHER PROVISIONS

Section 7.1 - Options Not Transferable

Except as set forth in Section 5.1 hereof, no Option or interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Optionee or his successors in

interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 7.1 shall prevent transfers by will or by the applicable laws of descent and distribution.

Section 7.2 - Amendment, Suspension or Termination of the Plan

The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee; provided, however, that no amendment or modification which requires shareholder approval under Rule 16b-3, if any, shall be effective in the absence of such approval. Neither the amendment, suspension nor termination of the Plan shall, without the consent of the holder of the Option, impair any rights or obligations under any Option theretofore granted. No Option may be granted during any period of suspension nor after termination of the Plan, and in no event may any Option be granted under this Plan after the first to occur of the following events:

(a) December 31, 2009; or

(b) The expiration of ten years from the date the Plan is approved by the Company's shareholder(s) under Section 7.3.

Section 7.3 - Approval of Plan by Shareholder(s)

This Plan will be submitted for the approval of the Company's shareholder(s) within 12 months after the date of the Board's initial adoption of the Plan. No Options shall be granted prior to such shareholder approval. The Company shall take such actions with respect to the Plan as may be necessary to satisfy the requirements of Rule 16b-3(b).

Section 7.4 - Effect of Plan Upon Other Option and Compensation Plans

The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company, any Parent Corporation or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company, any Parent Corporation or any Subsidiary to (a) establish any other forms of incentives or compensation for employees and Directors of the Company, any Parent Corporation or any Subsidiary or (b) grant or assume options otherwise than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

Section 7.5 - Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Section 7.6 - Conformity to Securities Laws

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and Options shall be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and Options granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

1999 EMPLOYEE STOCK OPTION PLAN

OF

PFSWEB, INC.

PFSweb, Inc., a corporation organized under the laws of the State of Delaware, hereby adopts this 1999 Employee Stock Option Plan. The purpose of this Plan is to further the growth, development and financial success of the Company by providing additional incentives to certain of its key Employees by assisting them to become owners of the Company's Common Stock and thus to benefit directly from its growth, development and financial success.

ARTICLE I

DEFINITIONS

Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary. The masculine pronoun shall include the feminine and neuter and the singular shall include the plural, where the context so indicates.

Section 1.1 - Board

"Board" shall mean the Board of Directors of the Company.

Section 1.2 - Code

"Code" shall mean the Internal Revenue Code of 1986, as amended.

Section 1.3 - Committee

"Committee" shall mean the Stock Option Committee of the Board, appointed as provided in Section 6.1.

Section 1.4 - Company

"Company" shall mean PFSweb, Inc., a Delaware corporation. In addition, "Company" shall mean any corporation assuming, or issuing new employee stock options in substitution for, Options outstanding under the Plan, in a transaction to which Section 424(a) of the Code applies.

Section 1.5 - Director

"Director" shall mean a member of the Board.

Section 1.6 - Employee

"Employee" shall mean any employee (as defined in accordance with the regulations and revenue rulings then applicable under Section 3401(c) of the Code) of the Company, or of any corporation which is then a Parent Corporation or a Subsidiary, whether such employee is so employed at the time this Plan is adopted or becomes so employed subsequent to the adoption of this Plan. To the extent not included in the foregoing, and subject to the applicable provisions of the Code, "Employee" shall also mean any officer, director, employee or consultant of the Company, or any entity which, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Company, as the Committee shall from time to time select in its sole discretion.

Section 1.7 - Exchange Act

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Section 1.8 - Incentive Stock Option

"Incentive Stock Option" shall mean an Option which qualifies under Section 422 of the Code and which is designated as an Incentive Stock Option by the Committee.

Section 1.9 - Non-Qualified Option

"Non-Qualified Option" shall mean an Option which is not an Incentive Stock Option and which is designated as a Non-Qualified Option by the Committee.

Section 1.10 - Officer

"Officer" shall mean an officer of the Company, as defined in Rule 16a-1(f) under the Exchange Act, as such Rule may be amended in the future.

Section 1.11 - Option

"Option" shall mean an option to purchase Common Stock of the Company, granted under the Plan. "Options" includes both Incentive Stock Options and Non-Qualified Options.

Section 1.12 - Optionee

"Optionee" shall mean an Employee to whom an Option is granted under the Plan.

Section 1.13 - Parent Corporation

"Parent Corporation" shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.14 - Plan

"Plan" shall mean this 1999 Employee Stock Option Plan of the Company.

Section 1.15 - Rule 16b-3

"Rule 16b-3" shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended in the future.

Section 1.16 - Secretary

"Secretary" shall mean the Secretary of the Company.

Section 1.17 - Securities Act

"Securities Act" shall mean the Securities Act of 1933, as amended.

Section 1.18 - Subsidiary

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.19 - Termination of Employment

"Termination of Employment" shall mean the time when an Optionee ceases to be an Employee for any reason, with or without cause, including, but not by way of limitation, by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous reemployment by the Company, a Parent Corporation, a Subsidiary or any entity which, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Company. The Committee, in its absolute discretion, and with respect to all Options hereunder, shall determine all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of

Employment is for "cause" and what actions constitute "cause", and all questions of whether particular leaves of absence constitute Terminations of Employment; provided, however, that, with respect to Incentive Stock Options, a leave of absence shall constitute a Termination of Employment if, and to the extent that, such leave of absence interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section.

ARTICLE II

SHARES SUBJECT TO PLAN

Section 2.1 - Shares Subject to Plan

The shares of stock subject to Options shall be shares of the Company's Common Stock. The aggregate number of such shares which may be issued upon exercise of Options shall be 5,750,000 shares. The shares to be issued upon exercise of Options may be newly-issued shares or Treasury shares.

Section 2.2 - Unexercised Options

If any Option expires or is canceled without having been fully exercised, the number of shares subject to such Option but as to which such Option was not exercised prior to its expiration or cancellation may again be optioned hereunder.

Section 2.3 - Changes in Company's Shares

In the event that the outstanding shares of Common Stock of the Company are hereafter changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, or in the event of any other capital transaction involving the outstanding shares of Common Stock of the Company as the Committee shall determine in its sole discretion, whether by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, appropriate adjustments shall be made by the Committee in the number, exercise price and kind of shares for the purchase of which Options may be granted, including adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued on exercise of Options.

ARTICLE III

GRANTING OF OPTIONS

Section 3.1 - Eligibility

Any key Employee shall be eligible to be granted Options, subject to such rules and conditions as the Committee may establish from time to time in its sole discretion.

Section 3.2 - Qualification of Incentive Stock Options

Subject to the provisions of Section 7.7 hereof, no Incentive Stock Option shall be granted unless such Option, when granted, qualifies as an "incentive stock option" under Section 422 of the Code.

Section 3.3 - Granting of Options

(a) Subject to the provisions hereof, the Committee shall from time to time, in its absolute discretion:

(i) Determine which Employees are key Employees and select from among the key Employees (including those to whom Options have been previously granted under the Plan or any other plan of the Company) such of them as in its opinion should be granted Options;

(ii) Determine the number of shares to be subject to such Options granted to such selected key Employees, and determine whether such Options are to be Incentive Stock Options or Non-Qualified Options; and

(iii) Determine the terms and conditions of such Options, consistent with the Plan.

(b) In selecting the key Employees to whom Options shall be granted hereunder, the number of shares to be subject to such Options and the terms and conditions of such Options, the Committee shall have sole and absolute discretion and shall be free to make non-uniform and selective determinations based upon such factors as it deems relevant.

(c) Upon the selection of a key Employee to be granted an Option, the Committee shall instruct the Secretary to issue such Option and may impose such conditions on the grant of such Option as it deems appropriate. Without limiting the generality of the preceding sentence, the Committee may, in its discretion and on such terms as it deems appropriate, require as a condition on the grant of an Option to an Employee that the Employee surrender for cancellation some or all of the unexercised Options which have been previously granted to him. An Option the grant of which is conditioned upon such surrender may have an option price lower (or higher) than the option price of the surrendered Option, may cover the same (or a lessor or greater) number of shares as the surrendered Option, may contain such other terms as the Committee deems appropriate and shall be exercisable in accordance with its terms, without regard to the number of shares, price, option period or any other term or condition of the surrendered Option.

ARTICLE IV
TERMS OF OPTIONS

Section 4.1 - Option Agreement

Each Option shall be evidenced by a written Stock Option Agreement, which shall be executed by the Optionee and an authorized Officer of the Company and which shall contain such terms and conditions as the Committee shall determine, consistent with the Plan. Stock Option Agreements evidencing Incentive Stock Options shall contain such terms and conditions as may be necessary to qualify such Options as "incentive stock options" under Section 422 of the Code.

Section 4.2 - Option Price

(a) The price of the shares subject to each Option shall be not less than 100% of the fair market value of such shares on the date such Option is granted; provided, however, that, in the case of an Incentive Stock Option, the price per share shall not be less than 110% of the fair market value of such shares on the date such Option is granted in the case of an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company, any Subsidiary or any Parent Corporation.

(b) For purposes of the Plan, the fair market value of a share of the Company's Common Stock as of a given date shall be: (i) the closing price of a share of the Company's Common Stock on the principal exchange on which shares of the Company's Common Stock are then trading, if any, on the day previous to such date, or, if shares were not traded on the day previous to such date, then on the next preceding trading day during which a sale occurred; or (ii) if such Common Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the Company's Common Stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the Company's Common Stock, in each case, as of the day previous to such date as reported by NASDAQ or such successor quotation system; or (iii) if such Common Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the Company's Common Stock, on the day previous to such date, as determined in good faith by the Committee; or (iv) if the Company's Common Stock is not publicly traded, the fair market value established by the Committee acting in good faith.

Section 4.3 - Commencement of Exercisability

(a) No Option may be exercised in whole or in part during the six months after such Option is granted, except as otherwise set forth herein.

(b) Each Option granted hereunder shall be subject to such vesting schedule (which may be cumulative or non-cumulative), conditions, restrictions and other provisions as the Committee shall, in its sole and absolute discretion, deem necessary or appropriate, which determinations may be non-uniform and selective and based upon such factors as it deems relevant in its sole and absolute discretion.

(c) Subject to the provisions hereof governing Incentive Stock Options, the Committee shall have the right to accelerate the vesting of any outstanding Option, or any portion thereof, at any time and from time to time, and upon such terms and conditions as it shall determine in its sole discretion.

(d) Notwithstanding any other provision of this Plan, to the extent that the aggregate fair market value (determined at the time the Incentive Stock Option is granted) of the shares of the Company's stock with respect to which "incentive stock options" (within the meaning of Section 422 of the Code) are exercisable by any Optionee for the first time by such Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company, any Subsidiary and any Parent Corporation) exceeds \$100,000, such Options shall be treated as Non-Qualified Options. For purposes of this Section, Options shall be taken into account in the order in which they were granted.

(e) Notwithstanding the provisions of paragraph (a) above, the Committee shall have the right to issue Options hereunder which are immediately exercisable on the date of grant; provided, however, that in such event, the shares of Common Stock to be issued thereunder shall be subject to such restrictions on transfer and forfeiture, if any, as the Committee shall, in its sole discretion, deem appropriate, which determinations may be non-uniform and selective and based upon such factors as it deems appropriate in its sole discretion.

Section 4.4 - Expiration of Options

No Option may be exercised to any extent by anyone after the first to occur of the following events:

(i) The expiration of ten years from the date the Option was granted;

(ii) With respect to an Incentive Stock Option, in the case of an Optionee owning (within the meaning of Section 424(d) of the Code), at the time the Incentive Stock Option was granted, more than 10% of the total combined voting power of all classes of stock of the Company, any Subsidiary or any Parent Corporation, the expiration of five years from the date the Incentive Stock Option was granted;

(iii) The date of the Optionee's Termination of Employment for any reason, other than such Optionee's death or disability (within the meaning of Section 22(e)(3) of the Code), unless the Committee otherwise elects to permit the exercise of such Option for a period of time thereafter; provided, however (a) such period of time shall end no later than ten years from the date the Option was granted, (b) with respect to Incentive Stock Options, such period of time shall not exceed three months from such Termination of Employment and (c) the Committee may make such elections in such manner as it deems appropriate, which may be non-uniform and selective, and based upon such factors as it deems relevant;

(iv) With respect to an Option held by an Optionee who is disabled (within the meaning of Section 22(e)(3) of the Code), the expiration of one year from the date of the Optionee's Termination of Employment for any reason other than such Optionee's death unless the Optionee dies within said one-year period;

(v) The expiration of one year from the date of the Optionee's death with respect to all Options held by such Optionee; and

(vi) With respect to all Options, and notwithstanding any other provision contained herein, the date of the Optionee's Termination of Employment in the event such Termination is for "cause" (as provided in Section 1.19 above).

Section 4.5 - Consideration

In consideration of the granting of an Option, the Committee may require that the Optionee shall agree to remain in the employ of the Company, a Parent Corporation or a Subsidiary for a period of one or more years after the Option is granted. Nothing in this Plan or in any Stock Option Agreement hereunder shall confer upon any Optionee any right to continue in the employ of the Company, any Parent Corporation or any Subsidiary or shall interfere with or restrict in any way the rights of the Company, its Parent Corporations and its Subsidiaries, which are hereby expressly reserved, to discharged any Optionee at any time for any reason whatsoever, with or without cause.

Section 4.6 - Adjustments in Outstanding Options

In the event that the outstanding shares of the stock subject to Options are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company, or in the event of any other capital transaction involving the outstanding shares of Common Stock of the Company as the Committee shall determine in its sole discretion, whether by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, the Committee shall make an appropriate and equitable adjustment in the number, exercise price and kind of shares as to which all outstanding Options, or portions thereof then unexercised, shall be exercisable, to the end that after such event the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in an outstanding Option shall be made without change in the total price applicable to

the Option or the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in Option price per share; provided, however, that, in the case of Incentive Stock Options, each such adjustment shall be made in such manner as not to constitute a "modification" within the meaning of Section 424(h)(3) of the Code. Any such adjustment made by the Committee shall be final and binding upon all Optionees, the Company and all other interested persons.

Section 4.7 - Merger, Consolidation, Acquisition, Liquidation or Dissolution

By its acceptance of each Option, each Optionee agrees that the Board shall have the power and right to declare and determine, by a duly adopted resolution of the Board, that each Option may not be exercised after (i) the merger or consolidation of the Company with or into another corporation (if the Company is not the surviving corporation of such merger or consolidation), (ii) the acquisition by another corporation or person of all or substantially all of the Company's assets or 80% or more of the Company's then outstanding voting stock or (iii) the liquidation or dissolution of the Company; provided, that such resolution shall be adopted prior to the occurrence of such merger, consolidation, acquisition, liquidation or dissolution.

ARTICLE V

EXERCISE OF OPTIONS

Section 5.1 - Person Eligible to Exercise

During the lifetime of the Optionee, only he may exercise an Option (or any portion thereof) granted to him. After the death of the Optionee, any exercisable portion of an Option may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement, be exercised by his personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution. Notwithstanding the foregoing, the Committee may, in its sole discretion, permit the transfer of any Non-Qualified Option, in whole or in part, and the exercise thereof by any transferee thereof.

Section 5.2 - Partial Exercise

At any time and from time to time prior to the time when any exercisable Option or exercisable portion thereof becomes unexercisable under the Plan or the applicable Stock Option Agreement, such Option or portion thereof may be exercised in whole or in part; provided, however, that the Company shall not be required to issue fractional shares and the Committee may require any partial exercise to be with respect to a specified minimum number of shares.

Section 5.3 - Manner of Exercise

An exercisable Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his office of all of the following prior to the time when such Option or such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement:

(a) Notice in writing signed by the Optionee or other person then entitled to exercise such Option or portion, stating that such Option or portion is exercised, such notice complying with all applicable rules established by the Committee; and

(b) (i) Full payment (in cash or by check) for the shares with respect to which such Option or portion is thereby exercised; or

(ii) With the consent of the Committee, (A) shares of the Company's Common Stock owned by the Optionee duly endorsed for transfer to the Company or (B) subject to the requirements of Section 5.4, shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option, in each case, with a fair market value (as determined under Section 4.2(b)) on the date of Option exercise equal to the aggregate Option price of the shares with respect to which such Option or portion is thereby exercised; or

(iii) With the consent of the Committee, a promissory note duly executed and delivered by the Optionee in the principal amount of the exercise price thereof, or any portion thereof, in each case upon such terms and conditions (including without limitation, terms regarding rates of interest, payment schedule, collateral or other security) as the Committee may establish in its sole and absolute discretion; or

(iv) With the consent of the Committee, any combination of the consideration provided in the foregoing subsections (i), (ii) and (iii);

(c) The payment to the Company (or other employer corporation) of all amounts which it is required to withhold under federal, state or local law in connection with the exercise of the Option; provided, that, with the consent of the Committee, any combination of the consideration provided in the foregoing subsections (i), (ii) and (iii) of the preceding paragraph (b) and may be used to make all or part of such payment;

(d) Such representations and documents as the Committee, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Committee may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(e) In the event that the Option or portion thereof shall be exercised pursuant to Section 5.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option or portion thereof.

Section 5.4 - Certain Requirements

The Committee may, in its sole discretion, limit or restrict the use of Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option to satisfy the Option price or the tax withholding consequences of such exercise (i) to such periods following the date of release of the quarterly or annual summary statement of sales and earnings of the Company and/or to such other periods as the Committee shall, in its sole discretion, deem appropriate, (ii) to its receipt of an irrevocable written election by the Optionee to use shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option to pay all or part of the Option price or the withholding taxes (subject to the approval of the Committee) made at least six months (or such other period as the Committee may determine) prior to the payment of such Option price or withholding taxes or (iii) in accordance with such other rules and regulations as the Committee may determine to be necessary or appropriate from time to time.

Section 5.5 - Conditions to Issuance of Stock Certificates

The shares of stock issuable and deliverable upon the exercise of an Option, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of any Option or portion thereof prior to the fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The payment to the Company (or other employer corporation) of all amounts which it is required to withhold under federal, state or local law in connection with the exercise of the Option; and

(e) The lapse of such reasonable period of time following the exercise of the Option as the Committee may establish from time to time for reasons of administrative convenience.

Section 5.6 - Rights as Shareholders

The holders of Options shall not be, nor have any of the rights or privileges of, shareholders of the Company in respect of any shares purchasable upon the exercise of any part of an Option unless and until certificates representing such shares have been issued by the Company to such holders.

Section 5.7 - Transfer Restrictions

If required at any time by the Committee, no shares acquired upon exercise of any Option by any Officer may be sold, assigned, pledged, encumbered or otherwise transferred until at least six months have elapsed from (but excluding) the date that such Option was granted. The Committee, in its absolute discretion, may impose such other restrictions on the transferability of the shares purchasable upon the exercise of an Option as it deems appropriate. Any such other restriction shall be set forth in the respective Stock Option Agreement and may be referred to on the certificates evidencing such shares. The Committee may require the Employee to give the Company prompt notice of any disposition of shares of stock, acquired by exercise of an Incentive Stock Option, within two years from the date of granting such Option or one year after the transfer of such shares to such Employee. The Committee may direct that the certificates evidencing shares acquired by exercise of an Incentive Stock Option refer to such requirement to give prompt notice of disposition.

ARTICLE VI

ADMINISTRATION

Section 6.1 - Stock Option Committee

The Stock Option Committee shall consist of two or more Directors, appointed by and holding office at the pleasure of the Board. The Board may limit the members of the Committee to directors who are both "non-employee directors", as defined in Rule 16b-3, and "outside directors", as defined in Section 162(m) of the Code. Subject to the limitations set forth in the preceding sentence, the powers of the Stock Option Committee may be exercised by the Compensation Committee of the Board. Appointment of Committee members shall be effective upon acceptance of appointment. Committee members may be removed by the Board at any time and may resign at any time. Vacancies in the Committee shall be filled by the Board. The Board reserves the right to serve as the Stock Option Committee if it so elects, and, in which event, the term "Committee" shall mean the Board.

Section 6.2 - Duties and Powers of Committee

It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the Options and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. Any such interpretations and rules in regard to Incentive Stock Options shall be consistent with the basic purpose of the Plan to grant "incentive stock options" within the meaning of Section 422 of the Code.

Section 6.3 - Majority Rule

The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

Section 6.4 - Compensation; Professional Assistance; Good Faith Actions

Members of the Committee shall receive such compensation for their services as members as may be determined by the Board. All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and its Officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Optionees, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Options, and all members of the Committee shall be fully protected by the Company in respect to any such action, determination or interpretation. The Committee shall have the unrestricted right to make non-uniform decisions and determinations in all matters regarding the Plan and all Options issued hereunder.

ARTICLE VII

OTHER PROVISIONS

Section 7.1 - Options Not Transferable

No Option or interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy),

and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 7.1 shall prevent transfers by will or by the applicable laws of descent and distribution. Notwithstanding the foregoing, the Committee may, in its discretion, permit the holder of any Non-Qualified Option to transfer such Option, or any portion thereof, to such holder's spouse, lineal descendent or trust established for the benefit thereof or any other person or entity.

Section 7.2 - Amendment, Suspension or Termination of the Plan

The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee, including without limitation, any amendment to increase or decrease the number of shares as to which Options may be granted, except as otherwise set forth herein hereunder, subject to any requirements of shareholder approval set forth in Section 16b-3 or the applicable provisions of the Code. Neither the amendment, suspension nor termination of the Plan shall, without the consent of the holder of the Option, impair any rights or obligations under any Option theretofore granted, except as otherwise set forth herein. Subject to any applicable provisions of Section 16b-3 and the Code, the Committee and the holder of any Option may at any time, by mutual consent, amend, modify or otherwise waive any of the terms and provisions, including the exercise price, of such holder's Option and Stock Option Agreement. No Option may be granted during any period of suspension nor after termination of the Plan, and in no event may any Option be granted under this Plan after the first to occur of (a) December 31, 2009 or (b) the expiration of ten years from the date the Plan is approved by the Company's shareholders under Section 7.3.

Section 7.3 - Effective Date; Approval of Plan by Shareholders

This Plan will be effective upon its approval by stockholders holding at least a majority of the Company's voting stock voting in person or by proxy or by written consent. In the event the Plan is not so approved, this Plan shall not become effective, and shall be null and void, and any Options issued hereunder shall be terminated.

Section 7.4 - Effect of Plan Upon Other Option and Compensation Plans

Except as otherwise set forth herein, the adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company, any Parent Corporation or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company, any Parent Corporation or any Subsidiary to (a) establish any other forms of incentives or compensation for employees of the Company, any Parent Corporation or any Subsidiary or (b) grant or assume options otherwise than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

Section 7.5 - Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Section 7.6 - Conformity to Securities Laws

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and Options shall be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and Options granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 7.7 - Incentive Stock Options

With respect to Incentive Stock Options, if the Plan does not contain any provision now or hereafter required to be included herein under section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out at length herein. Notwithstanding anything contained herein, to the extent any Option which is intended to qualify as an Incentive Stock Option cannot so qualify, such Option, to that extent, shall be deemed to be a Non-Qualified Option under the Code for all purposes of the Plan.

Section 7.8 - Exclusion from Pension and Profit-Sharing Computation

By acceptance of an Option, each Optionee shall be deemed to have agreed that such grant is special incentive compensation that will not be taken into account, in any manner, as salary, compensation or bonus in determining the amount of any payment under any pension, retirement or other employee benefit plan of the Company or any of its Subsidiaries, whether now existing or hereafter arising. In addition, such Option will not affect the amount of any life insurance coverage, if any, provided by the Company on the life of the Optionee which is payable to such beneficiary under any life insurance plan covering employees of the Company or any of its Subsidiaries.

INDUSTRIAL LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease") is made as of the "Lease Date" (as defined in Section 37 herein) by and between SHELBY DRIVE CORPORATION, a Florida corporation ("Landlord"), and PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("Tenant") (the words "Landlord" and "Tenant" to include their respective legal representatives, successors and permitted assigns where the context requires or permits).

W I T N E S S E T H:

1. Basic Lease Provisions. The following constitute the basic provisions of this Lease:

(a) Demised Premises Address: 4650 Shelby Drive
Memphis, Tennessee 38118

(b) Demised Premises Square Footage: approximately 442,184 sq. ft.

(c) Building Square Footage: approximately 442,184 sq. ft.

(d) Annual Base Rent:

Lease Year 1	\$1,308,864
Lease Year 2	\$1,308,864
Lease Year 3	\$1,308,864
Lease Year 4	\$1,308,864
Lease Year 5	\$1,308,864

(e) Monthly Base Rent Installments:

Lease Year 1	\$109,072
Lease Year 2:	\$109,072
Lease Year 3	\$109,072
Lease Year 4	\$109,072
Lease Year 5	\$109,072

(f) Lease Commencement Date: September 1, 1999

(g) Base Rent Commencement Date: September 1, 1999

(h) Expiration Date: August 31, 2004

(i) Term: 5 years

(j) Tenant's Operating Expense Percentage: 100%

(k) Security Deposit: Not Applicable

(l) Permitted Use: Office and partially automated storage and distribution of non-toxic products

(m) Address for notice:

Landlord: Shelby Drive Corporation
c/o L&B Realty Advisors, Inc.
8750 N. Central Expressway
Suite 800
Dallas, Texas 75231
Attn: Ed Daley

With a copy to: Shelby Drive Corporation
c/o IDI Services Group, Inc.
3424 Peachtree Road, Suite 1500
Atlanta, Georgia 30326

Tenant: Priority Fulfillment Services, Inc.
 500 North Central Expressway
 Plano, Texas 75074
 Attn: Mark C. Layton, Chief Executive Officer

(n) Address for rental payments:

Shelby Drive Corporation
 c/o IDI Services Group, Inc.
 3424 Peachtree Road, N.E.
 Suite 1500
 Atlanta, Georgia 30326

(o) Broker(s): Commercial Tennessee
 3175 Lennox Park Blvd., Suite 100
 Memphis, Tennessee 38115
 Attn: Wyatt A. Aiken

(p) Guarantor: Daisytek International Corporation

2. Demised Premises. For and in consideration of the rent hereinafter reserved and the mutual covenants hereinafter contained, Landlord does hereby lease and demise unto Tenant, and Tenant does hereby hire, lease and accept, from Landlord all upon the terms and conditions hereinafter set forth the following premises, referred to as the "Demised Premises", as outlined on Exhibit A attached hereto and incorporated herein: approximately 442,184 square feet of space, having an address as set forth in Section 1(a), comprising all of Building I (the "Building"), which is located on that certain parcel of land described on Exhibit B attached hereto and incorporated herein (the "Land"), within Southpark (the "Project"), in Shelby County, Tennessee, together with the right to use and enjoy the Building Appurtenance Area (as hereinafter defined).

3. Term. To have and to hold the Demised Premises for a preliminary term (the "Preliminary Term") commencing on the Lease Date and ending on the Lease Commencement Date as set forth in Section 1(f), and a primary term (the "Primary Term") commencing on the Lease Commencement Date and terminating on the Expiration Date as set forth in Section 1(h), as the Lease Commencement Date and the Expiration Date may be revised pursuant to Section 17 (the Preliminary Term, the Primary Term, and any and all extensions thereof, herein referred to as the "Term"). The term "Lease Year" shall mean each one (1) year period of the Term (or portion thereof if the last Lease Year of the Term is less than one (1) full year) beginning on the Lease Commencement Date, and each anniversary thereof, and ending on the day immediately prior to the next succeeding anniversary of the Lease Commencement Date.

4. Base Rent. Tenant shall pay to Landlord at the address set forth in Section 1(n), as base rent for the Demised Premises, commencing on the Base Rent Commencement Date and continuing throughout the Term in lawful money of the United States, the annual amount set forth in Section 1(d) payable in equal monthly installments as set forth in Section 1(e) (the "Base Rent"), payable in advance, without demand and without abatement, reduction, set-off or deduction, on the first day of each calendar month during the Term. If the Base Rent Commencement Date shall fall on a day other than the first day of a calendar month, the Base Rent shall be apportioned pro rata on a per diem basis (i) for the period between the Base Rent Commencement Date and the first day of the following calendar month (which pro rata payment shall be due and payable on the Base Rent Commencement Date), and (ii) for the last partial month of the Term, if applicable. No payment by Tenant or receipt by Landlord of rent hereunder shall be deemed to be other than on account of the amount due, and no endorsement or statement on any check or any letter accompanying any check or payment of rent shall be deemed an accord and satisfaction, and Landlord may accept such check as payment without prejudice to Landlord's right to recover the balance of such installment or payment of rent or pursue any other remedies available to Landlord.

5. Intentionally Omitted.

6. Operating Expenses and Additional Rent.

(a) Tenant agrees to pay as Additional Rent (as defined in Section 6(b) below) its proportionate share of Operating Expenses (as hereinafter defined). "Operating Expenses" shall be defined as all reasonable expenses for operation, repair, replacement and maintenance as necessary to keep (i) the Building, and (ii) the driveways, parking areas, truck courts, and other improvements (other than the Building) located on the Land, and serving the Demised Premises (collectively, the "Building Appurtenance Area") in good order, condition and repair, including but not limited to, utilities for the Building and the Building Appurtenance Area, expenses associated with the driveways and parking areas (including sealing and restriping, and snow, trash and ice removal), security systems, fire detection and prevention systems, lighting facilities, landscaped areas, walkways, painting and caulking, directional signage, curbs, drainage strips, sewer lines, all charges assessed against or attributed to the Building

pursuant to any applicable easements, covenants, restrictions, agreements, declaration of protective covenants (including, without limitation, such dues and assessments payable pursuant to the Declaration of Protective Covenants for the Project, as amended from time to time in accordance with the terms thereof (the "Protective Covenants")) or development standards, property management fees, all real property taxes and special assessments imposed upon the Building and the Building Appurtenance Area, all costs of insurance paid by Landlord with respect to the Building and the Building Appurtenance Area and cost of improvements to the Building and the Building Appurtenance Area required by any law, ordinance or regulation applicable to the Building and the Building Appurtenance Area generally. Operating Expenses shall not include expenses for the costs of any maintenance and repair required to be performed by Landlord at its own expense under Section (10)(b) or advertising, marketing or commission expenses. Further, Operating Expenses shall not include the costs for capital improvements unless such costs are incurred for the purpose of causing a material decrease in the Operating Expenses of the Building or the Building Appurtenance Area or are made with respect to improvements made to comply with laws, ordinances or regulations as described above. Operating Expenses shall be accounted for in accordance with generally accepted accounting principles. The proportionate share of Operating Expenses to be paid by Tenant shall be a percentage of the Operating Expenses based upon the proportion that the square footage of the Demised Premises bears to the total square footage of the Building (such figure referred to as "Tenant's Operating Expense Percentage" and set forth in Section 1(j)). Prior to or promptly after the beginning of each calendar year during the Term, Landlord shall estimate the total amount of Operating Expenses to be paid by Tenant during each such calendar year and Tenant shall pay to Landlord one-twelfth (1/12) of such sum on the first day of each calendar month during each such calendar year, or part thereof, during the Term. Within a reasonable time after the end of each calendar year, Landlord shall submit to Tenant a statement of the actual amount of Operating Expenses for such calendar year, and the actual amount owed by Tenant, and within thirty (30) days after receipt of such statement, Tenant shall pay any deficiency between the actual amount owed and the estimates paid during such calendar year, or in the event of overpayment, Landlord shall credit the amount of such overpayment toward the next installment of Operating Expenses owed by Tenant or remit such overpayment to Tenant if the Term has expired or has been terminated and no Event of Default exists hereunder. The obligations in the immediately preceding sentence shall survive the expiration or any earlier termination of this Lease. If the Lease Commencement Date shall fall on other than the first day of the calendar year, and/or if the Expiration Date shall fall on other than the last day of the calendar year, Tenant's proportionate share of the Operating Expenses for such calendar year shall be apportioned prorata.

(b) Any amounts required to be paid by Tenant hereunder (in addition to Base Rent) and any charges or expenses incurred by Landlord on behalf of Tenant under the terms of this Lease shall be considered "Additional Rent" payable in the same manner and upon the same terms and conditions as the Base Rent reserved hereunder except as set forth herein to the contrary. Any failure on the part of Tenant to pay such Additional Rent when and as the same shall become due shall entitle Landlord to the remedies available to it for non-payment of Base Rent. Tenant's obligations for payment of Additional Rent shall begin to accrue on the Base Rent Commencement Date.

(c) If applicable in the jurisdiction where the Demised Premises are located, Tenant shall pay and be liable for all rental, sales, use and inventory taxes or other similar taxes, if any, on the amounts payable by Tenant hereunder levied or imposed by any city, state, county or other governmental body having authority, such payments to be in addition to all other payments required to be paid Landlord by Tenant under the terms of this Lease. Such payment shall be made by Tenant directly to such governmental body if billed to Tenant, or if billed to Landlord, such payment shall be paid concurrently with the payment of the Base Rent, Additional Rent, or such other charge upon which the tax is based, all as set forth herein.

7. Use of Demised Premises.

(a) The Demised Premises shall be used for the Permitted Use set forth in Section 1(l) and for no other purpose without Landlord's consent, which consent shall not be unreasonably withheld.

(b) Tenant will permit no liens to attach or exist against the Demised Premises.

(c) The Demised Premises shall not be used for any illegal purposes, and Tenant shall not allow, suffer, or permit any vibration, noise, odor, light or other effect to occur within or around the Demised Premises that could constitute a nuisance or trespass for Landlord or any occupant of the Building or an adjoining premises. Upon notice by Landlord to Tenant that any of the aforesaid prohibited uses are occurring, Tenant agrees to promptly remove or control the same.

(d) Tenant shall not in any way violate any law, ordinance or restrictive covenant affecting the Demised Premises, and shall not in any manner use the Demised Premises so as to cause cancellation of, prevent the use of the fire and extended coverage insurance policy required hereunder. Landlord makes no (and does hereby expressly disclaim any) covenant, representation or warranty as to the Permitted Use being allowed by or being in compliance with any applicable laws, rules, ordinances or restrictive covenants now or hereafter affecting the Demised Premises, and any zoning letters, copies of zoning

ordinances or other information from any governmental agency or other third party provided to Tenant by Landlord or any of Landlord's agents or employees shall be for informational purposes only,

Tenant hereby expressly acknowledging and agreeing that Tenant shall conduct and rely solely on its own due diligence and investigation with respect to the compliance of the Permitted Use with all such applicable laws, rules, ordinances and restrictive covenants and not on any such information provided by Landlord or any of its agents or employees.

(e) In the event insurance premiums pertaining to the Demised Premises, the Building, or the Building Appurtenance Area, whether paid by Landlord or Tenant, are increased over the least hazardous rate available due to the nature of the use of the Demised Premises by Tenant, Tenant shall pay such additional amount as Additional Rent, provided Tenant is given reasonable prior notice of such impending increase and an opportunity to cease or modify such use.

8. Insurance.

(a) Tenant covenants and agrees that from and after the Lease Commencement Date or any earlier date upon which Tenant enters or occupies the Demised Premises or any portion thereof, Tenant will carry and maintain, at its sole cost and expense, the following types of insurance, in the amounts specified and in the form hereinafter provided for:

(i) Liability insurance in the Commercial General Liability form (or reasonable equivalent thereto) covering the Demised Premises and Tenant's use thereof against claims for bodily injury or death, property damage and product liability occurring upon, in or about the Demised Premises, such insurance to be written on an occurrence basis (not a claims made basis), to be in combined single limits amounts not less than \$1,000,000.00 and to have general aggregate limits of not less than \$2,000,000.00 with "umbrella" coverage with limits of not less than \$5,000,000.00 for each policy year. The insurance coverage required under this Section 8(a)(i) shall, in addition, extend to any liability of Tenant arising out of the indemnities provided for in Section 11 and, if necessary, the policy shall contain a contractual endorsement to that effect.

(ii) Insurance covering (A) all of the items included in the leasehold improvements constructed in the Demised Premises by or at the expense of Landlord (collectively, the "Improvements"), including but not limited to demising walls and the heating, ventilating and air conditioning system and (B) Tenant's trade fixtures, merchandise and personal property from time to time in, on or upon the Demised Premises, in an amount not less than one hundred percent (100%) of their full replacement value (or such percentage below 100% which assures full payment by the insurer of any claim) from time to time during the Term, providing protection against perils included within the standard form of "all-risks" fire and casualty insurance policy, together with insurance against sprinkler damage, vandalism and malicious mischief. Any policy proceeds from such insurance relating to the Improvements shall be used solely for the repair, construction and restoration or replacement of the Improvements damaged or destroyed unless this Lease shall cease and terminate under the provisions of Section 20.

(b) All policies of the insurance provided for in Section 8(a) shall be issued in form reasonably acceptable to Landlord by insurance companies with a rating of not less than "A," and financial size of not less than Class X, in the most current available "Best's Insurance Reports", and licensed to do business in the state in which the Building is located. Each and every such policy:

(i) shall name Landlord and Lender (as defined in Section 24) as an additional insured. In addition, the coverage described in Section 8(a)(ii)(A) relating to the Improvements shall also name Landlord as "loss payee";

(ii) shall be delivered to Landlord, in the form of an insurance certificate acceptable to Landlord as evidence of such policy, prior to the Lease Commencement Date and thereafter within thirty (30) days prior to the expiration of each such policy, and, as often as any such policy shall expire or terminate. Renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent;

(iii) shall contain a provision that the insurer will give to Landlord and such other parties in interest at least fifteen (15) days notice in writing in advance of any cancellation, termination or lapse, or the effective date of any reduction in the amounts of insurance; and

(iv) shall be written as a primary policy which does not contribute to and is not in excess of coverage which Landlord may carry.

(c) In the event that Tenant shall fail to carry and maintain the insurance coverages set forth in this Section 8, Landlord may upon thirty (30) days notice to Tenant (unless such coverages will lapse in which event no such notice shall be necessary) procure such policies of insurance and Tenant shall promptly reimburse Landlord therefor.

(d) Landlord and Tenant hereby waive any rights each may have against the other on account of any loss or damage occasioned to Landlord or Tenant, as the case may be, their respective property, the Demised Premises, its contents or to the other portions of the Building, arising from any risk covered by all risks fire and extended coverage insurance of the type and amount required to be carried

hereunder, provided that such waiver does not invalidate such policies or prohibit recovery thereunder. The parties hereto shall use reasonable efforts to cause their respective insurance companies insuring the property of either Landlord or Tenant against any such loss, to waive any right of subrogation that such insurers may have against Landlord or Tenant, as the case may be.

9. Utilities. During the Term, Tenant shall promptly pay as billed to Tenant all rents and charges for water and sewer services and all costs and charges for gas, steam, electricity, fuel, light, power, telephone, heat and any other utility or service used or consumed in or servicing the Demised Premises. To the extent reasonably possible, such utilities shall be separately metered and billed to Tenant. Any utilities which are not separately metered shall be billed to Tenant by Landlord at Landlord's actual cost. In the event Tenant's use of any utility not metered is in excess of the average use by other tenants, Landlord shall have the right to install a meter for such utility, at Tenant's expense, and bill Tenant for Tenant's actual use. If Tenant fails to pay any utility bills or charges, Landlord may, at its option and upon reasonable notice to Tenant, pay the same and in such event, the amount of such payment, together with interest thereon at the Interest Rate as defined in Section 32 from the date of such payment by Landlord, will be added to Tenant's next due payment as Additional Rent.

10. Maintenance and Repairs.

(a) Tenant shall, at its own cost and expense, maintain in good condition and repair the interior of the Demised Premises, including but not limited to the heating, air conditioning and ventilation systems, glass, windows and doors, sprinkler, all plumbing and sewage systems, fixtures, interior walls, floors (including floor slabs), ceilings, storefronts, plate glass, skylights, all electrical facilities and equipment including, without limitation, lighting fixtures, lamps, fans and any exhaust equipment and systems, electrical motors, and all other appliances and equipment (including, without limitation, dock levelers, dock shelters, dock seals and dock lighting) of every kind and nature located in, upon or about the Demised Premises, except as to such maintenance and repair as is the obligation of Landlord pursuant to Section 10(b). During the Term, Tenant shall maintain in full force and effect a service contract for the maintenance of the heating, ventilation and air conditioning systems with an entity reasonably acceptable to Landlord. Tenant shall deliver to Landlord (i) a copy of said service contract prior to the Lease Commencement Date, and (ii) thereafter, a copy of a renewal or substitute service contract within thirty (30) days prior to the expiration of the existing service contract. Tenant's obligation shall exclude any maintenance and repair required because of the act or negligence of Landlord, its employees, contractors or agents, which shall be the responsibility of Landlord.

(b) Landlord shall, at its own cost and expense, maintain in good condition and repair the roof, foundation (beneath the floor slab) and structural frame of the Building. Landlord's obligation shall exclude the cost of any maintenance or repair required because of the act or negligence of Tenant or Tenant's agents, contractors, employees and invitees (collectively, "Tenant's Affiliates"), the cost of which shall be the responsibility of Tenant.

(c) Except to the extent the same is caused by the negligent action or inaction of Landlord, its employees or agents, and is not covered by the insurance required to be carried by Tenant pursuant to the terms of this Lease, Landlord shall not be liable to Tenant or to any other person for any damage occasioned by failure in any utility system or by the bursting or leaking of any vessel or pipe in or about the Demised Premises, or for any damage occasioned by water coming into the Demised Premises unless caused by the negligent action or inaction of Landlord, costs of which shall be the responsibility of Landlord.

11. Tenant's Personal Property; Indemnity. Except as otherwise set forth in this paragraph, all of Tenant's personal property in the Demised Premises shall be and remain at Tenant's sole risk. Landlord, its agents, employees and contractors, shall not be liable for, and Tenant hereby releases Landlord from, any and all liability for theft thereof or any damage thereto occasioned by any act of God or by any acts, omissions or negligence of any persons. Landlord, its agents, employees and contractors, shall not be liable for any injury to the person or property of Tenant or other persons in or about the Demised Premises, Tenant expressly agreeing to indemnify and save Landlord, its agents, employees and contractors, harmless, in all such cases, except to the extent caused by the negligence of Landlord, its agents, employees and contractors. Tenant further agrees to indemnify and reimburse Landlord for any costs or expenses, including, without limitation, attorneys' fees, that Landlord reasonably may incur in investigating, handling or litigating any such claim against Landlord by a third person, unless such claim arose from the negligence of Landlord, its agents, employees or contractors. The provisions of this Section 11 shall survive the expiration or earlier termination of this Lease with respect to any damage, injury or death occurring before such expiration or termination. The foregoing shall not release Landlord from liability relating to the act or negligence of Landlord, costs of which shall be Landlord's responsibility.

12. Tenant's Fixtures. Tenant shall have the right to install in the Demised Premises trade fixtures required by Tenant or used by it in its business, and if installed by Tenant, to remove any or all such trade fixtures from time to time during and upon termination or expiration of this Lease, provided no Event of Default, as defined Section 22, then exists; provided, however, that Tenant shall repair and restore any damage or injury to the Demised Premises (to the condition in which the Demised Premises existed prior

to such installation) caused by the installation and/or removal of any such trade fixtures.

13. Signs. No sign, advertisement or notice shall be inscribed, painted, affixed, or displayed on the windows or exterior walls of the Demised Premises or on any public area of the Building, except in such places, numbers, sizes, colors and styles as are approved in advance in writing by Landlord, and which conform to all applicable laws, ordinances, or covenants affecting the Demised Premises. Notwithstanding the foregoing, Tenant shall have the right to affix one (1) identification sign to the exterior of the Demised Premises or to a free-standing "monument sign" in a location reasonably approved by Landlord, provided (a) the dimensions of the sign do not exceed the dimensions (length, width and height) of the sign installed by Starter Corporation and existing at the Demised Premises as of the Lease Date, and (b) Tenant and such sign otherwise comply with the terms and conditions of this Section 13. Any and all signs installed or constructed by or on behalf of Tenant pursuant hereto shall be installed, maintained and removed by Tenant at Tenant's sole cost and expense.

14. Intentionally Omitted.

15. Governmental Regulations. Tenant shall promptly comply throughout the Term, at Tenant's sole cost and expense, with all present and future laws, ordinances, orders, rules, regulations or requirements of all federal, state and municipal governments and appropriate departments, commissions, boards and officers thereof (collectively, "Governmental Requirements") relating to (a) all or any part of the Demised Premises, and (b) to the use or manner of use of the Demised Premises and the Building Appurtenance Area. Tenant shall also observe and comply with the requirements of all policies of public liability, fire and other policies of insurance at any time in force with respect to the Demised Premises. Without limiting the foregoing, if as a result of one or more Governmental Requirements it is necessary, from time to time during the Term, to perform an alteration or modification of the Demised Premises (a "Code Modification") which is made necessary as a result of the specific use being made by Tenant of the Demised Premises, then such Code Modification shall be the sole and exclusive responsibility of Tenant in all respects; any such Code Modification shall be promptly performed by Tenant at its expense in accordance with the applicable Governmental Requirement and with Section 18 hereof. If as a result of one or more Governmental Requirements it is necessary from time to time during the Term to perform a Code Modification which (i) would be characterized as a capital expenditure under generally accepted accounting principles and (ii) is not made necessary as a result of the specific use being made by Tenant of the Demised Premises, then (a) Landlord shall have the obligation to perform the Code Modification at its expense, (b) the cost of such Code Modification shall be amortized on a straight-line basis over the useful life of the item in question, as reasonably determined by Landlord, and (c) Tenant shall be obligated to pay (as Additional Rent, payable in the same manner and upon the same terms and conditions as the Base Rent reserved hereunder) for the portion of such amortized costs attributable to the remainder of the Term, including any extensions thereof. Tenant shall promptly send to Landlord a copy of any written notice received by Tenant requiring a Code Modification.

16. Environmental Matters.

(a) For purposes of this Lease:

(i) "Contamination" as used herein means the presence of or release of Hazardous Substances (as hereinafter defined) into any environmental media from, upon, within, below, into or on any portion of the Demised Premises, the Building, the Building Appurtenance Area or the Project so as to require remediation, cleanup or investigation under any applicable Environmental Law (as hereinafter defined).

(ii) "Environmental Laws" as used herein means all federal, state, and local laws, regulations, orders, permits, ordinances or other requirements, which exist now or as may exist hereafter, concerning protection of human health, safety and the environment, all as may be amended from time to time.

(iii) "Hazardous Substances" as used herein means any hazardous or toxic substance, material, chemical, pollutant, contaminant or waste as those terms are defined by any applicable Environmental Laws (including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq. ("CERCLA") and the Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. ["RCRA"]) and any solid wastes, polychlorinated biphenyls, urea formaldehyde, asbestos, radioactive materials, radon, explosives, petroleum products and oil.

(b) Landlord represents that, except as revealed to Tenant in writing by Landlord, to Landlord's actual knowledge, Landlord has not treated, stored or disposed of any Hazardous Substances upon or within the Demised Premises, nor, to Landlord's actual knowledge, has any predecessor owner of the Demised Premises.

(c) Tenant covenants that all its activities, and the activities of Tenant's Affiliates (as defined in Section 10(b)), on the Demised Premises, the Building, or the Project during the Term will be conducted in compliance with Environmental Laws. Tenant warrants that it is currently in compliance with all applicable Environmental Laws and that there are no pending or threatened notices of deficiency,

notices of violation, orders, or judicial or administrative actions involving alleged violations by Tenant of any Environmental Laws arising out of its activities on or within the Demised Premises. Tenant, at Tenant's sole cost and expense, shall be responsible for obtaining all permits or licenses or approvals under Environmental Laws necessary for Tenant's operation of its business on the Demised Premises and shall make all notifications and registrations required by any applicable Environmental Laws. Tenant, at Tenant's sole cost and expense, shall at all times comply with the terms and conditions of all such permits, licenses, approvals, notifications and registrations and with any other applicable Environmental Laws. Tenant warrants that it has obtained all such permits, licenses or approvals and made all such notifications and registrations required by any applicable Environmental Laws necessary for Tenant's operation of its business on the Demised Premises.

(d) Tenant shall not cause or permit any Hazardous Substances to be brought upon, kept or used in or about the Demised Premises, the Building, or the Project in violation of any Environmental Laws without the prior written consent of Landlord, which consent shall not be unreasonably withheld; provided, however, that the consent of Landlord shall not be required for the use at the Demised Premises of cleaning supplies, toner for photocopying machines and other similar materials, in containers and quantities reasonably necessary for and consistent with normal and ordinary use by Tenant in the routine operation or maintenance of Tenant's office equipment or in the routine janitorial service, cleaning and maintenance for the Demised Premises. For purposes of this Section 16, Landlord shall be deemed to have reasonably withheld consent if Landlord determines that the presence of such Hazardous Substance within the Demised Premises could result in a risk of harm to person or property or otherwise negatively affect the value or marketability of the Building or the Project.

(e) Tenant shall not cause or permit the release of any Hazardous Substances by Tenant or Tenant's Affiliates into any environmental media such as air, water or land, or into or on the Demised Premises, the Building or the Project in any manner that violates any Environmental Laws. If such release shall occur, Tenant shall (i) take all steps reasonably necessary to contain and control such release and any associated Contamination, (ii) clean up or otherwise remedy such release and any associated Contamination to the extent required by, and take any and all other actions required under, applicable Environmental Laws and (iii) notify and keep Landlord reasonably informed of such release and response.

(f) Regardless of any consents granted by Landlord pursuant to Section 16(d) allowing Hazardous Substances upon the Demised Premises, Tenant shall under no circumstances whatsoever cause or permit (i) any activity on the Demised Premises which would cause the Demised Premises to become subject to regulation as a hazardous waste treatment, storage or disposal facility under RCRA or the regulations promulgated thereunder, (ii) the discharge of Hazardous Substances into the storm sewer system serving the Project or (iii) the installation of any underground storage tank or underground piping on or under the Demised Premises.

(g) Tenant shall and hereby does indemnify Landlord and hold Landlord harmless from and against any and all reasonable and actual expense, loss, and liability suffered by Landlord (except to the extent that such expenses, losses, and liabilities arise out of Landlord's own negligence or willful act), by reason of the storage, generation, release, handling, treatment, transportation, disposal, or arrangement for transportation or disposal, of any Hazardous Substances (whether accidental, intentional, or negligent) by Tenant or Tenant's Affiliates or by reason of Tenant's breach of any of the provisions of this Section 16. Such expenses, losses and liabilities shall include, without limitation, (i) any and all expenses that Landlord may incur to comply with any Environmental Laws; (ii) any and all costs that Landlord may incur in studying or remedying any Contamination at or arising from the Demised Premises, the Building, or the Project; (iii) any and all costs that Landlord may incur in studying, removing, disposing or otherwise addressing any Hazardous Substances; (iv) any and all fines, penalties or other sanctions assessed upon Landlord; and (v) any and all legal and professional fees and costs incurred by Landlord in connection with the foregoing. The indemnity contained herein shall survive the expiration or earlier termination of this Lease.

17. Construction of Demised Premises. Tenant hereby expressly acknowledges and agrees that it shall accept, and shall be deemed to have accepted, the Demised Premises AS IS, WHERE IS, and as suitable for the purposes for which the same are leased hereby and, upon request by Landlord, shall execute and deliver to Landlord a letter of acceptance in which Tenant (i) accepts the Demised Premises AS IS, WHERE IS and (ii) confirms that the Lease Commencement Date, the Base Rent Commencement Date and the Expiration Date remain as set forth in Section 1, or if revised pursuant to the terms hereof, setting forth such dates as so revised.

18. Tenant Alterations and Additions.

(a) Tenant shall not make or permit to be made any alterations, improvements, or additions to the Demised Premises (a "Tenant's Change"), without first obtaining on each occasion Landlord's prior written consent (which consent Landlord agrees not to unreasonably withhold) and Lender's prior written consent (if such consent is required). As part of its approval process, Landlord may require that Tenant submit plans and specifications to Landlord, for Landlord's approval or disapproval, which approval shall not be unreasonably withheld. All Tenant's Changes shall be performed in accordance with all legal

requirements applicable thereto and in a good and workmanlike manner with

first-class materials. Tenant shall maintain insurance reasonably satisfactory to Landlord during the construction of all Tenant's Changes. If Landlord at the time of giving its approval to any Tenant's Change notifies Tenant in writing that approval is conditioned upon restoration, then Tenant shall, at its sole cost and expense and upon the termination or expiration of this Lease, remove the same and restore the Demised Premises to its condition prior to such Tenant's Change. No Tenant's Change shall be structural in nature or impair the structural strength of the Building. Tenant shall pay the full cost of any Tenant's Change. Except as otherwise provided herein and in Section 12 hereof, and except as agreed upon by the parties at the time a Tenant's Change is approved, all Tenant's Changes shall immediately upon completion or installation thereof be and become part of the Demised Premises and the property of Landlord without payment therefor by Landlord and shall be surrendered to Landlord upon the expiration or earlier termination of this Lease.

(b) To the extent permitted by law, all of Tenant's contracts and subcontracts for such Tenant's Changes shall provide that no lien shall attach to or be claimed against the Demised Premises or any interest therein other than Tenant's leasehold interest in the Demised Premises, and that all subcontracts let thereunder shall contain the same provision. Whether or not Tenant furnishes the foregoing, Tenant agrees to hold Landlord harmless against all liens, claims and liabilities of every kind, nature and description which may arise out of or in any way be connected with such work. Tenant shall not permit the Demised Premises to become subject to any mechanics', laborers' or materialmen's lien on account of labor, material or services furnished to Tenant or claimed to have been furnished to Tenant in connection with work of any character performed or claimed to have been performed for the Demised Premises by, or at the direction or sufferance of Tenant and if any such liens are filed against the Demised Premises, Tenant shall promptly discharge the same; provided, however, that Tenant shall have the right to contest, in good faith and with reasonable diligence, the validity of any such lien or claimed lien if Tenant shall give to Landlord, within fifteen days after demand, such security as may be reasonably satisfactory to Landlord to assure payment thereof and to prevent any sale, foreclosure, or forfeiture of Landlord's interest in the Demised Premises by reason of non-payment thereof; provided further that on final determination of the lien or claim for lien, Tenant shall immediately pay any judgment rendered, with all proper costs and charges, and shall have the lien released and any judgment satisfied. If Tenant fails to post such security or does not diligently contest such lien, Landlord may, without investigation of the validity of the lien claim, discharge such lien and Tenant shall reimburse Landlord upon demand for all costs and expenses incurred in connection therewith, which expenses shall include any attorneys' fees, paralegals' fees and any and all costs associated therewith, including litigation through all trial and appellate levels and any costs in posting bond to effect a discharge or release of the lien. Nothing contained in this Lease shall be construed as a consent on the part of Landlord to subject the Demised Premises to liability under any lien law now or hereafter existing of the state in which the Demised Premises are located.

19. Services by Landlord. Landlord shall be responsible for providing for maintenance of the Building Appurtenance Area, and, except as required by Section 10(b) hereof, Landlord shall be responsible for no other services whatsoever. Tenant, by payment of Tenant's share of the Operating Expenses, shall pay Tenant's pro rata share of the expenses incurred by Landlord hereunder.

20. Fire and Other Casualty. In the event the Demised Premises are damaged by fire or other casualty, Landlord agrees to promptly restore and repair the Demised Premises at Landlord's expense, including the Improvements to be insured by Tenant but only to the extent Landlord receives insurance proceeds therefor, including the proceeds from the insurance required to be carried by Tenant on the Improvements (provided that Landlord shall be responsible for any deductible under Landlord's insurance policies). Notwithstanding the foregoing, in the event that the Demised Premises are (i) in the reasonable opinion of Landlord, so destroyed that they cannot be repaired or rebuilt within ninety (90) days after the date of such damage; or (ii) destroyed by a casualty which is covered by Landlord's insurance but Lender or other party entitled to insurance proceeds fails to make such proceeds available to Landlord in an amount sufficient for restoration of the Demised Premises reasonably acceptable to Tenant, then Landlord shall give written notice to Tenant of such determination (the "Determination Notice") within sixty (60) days of such casualty. Either Landlord or Tenant may terminate and cancel this Lease effective as of the date of such casualty by giving written notice to the other party within thirty (30) days after Tenant's receipt of the Determination Notice. Upon the giving of such termination notice, all obligations hereunder with respect to periods from and after the effective date of termination shall thereupon cease and terminate. If no such termination notice is given, Landlord shall, to the extent of the available insurance proceeds, make such repair or restoration of the Demised Premises to the approximate condition existing prior to such casualty, promptly and in such manner as not to unreasonably interfere with Tenant's use and occupancy of the Demised Premises (if Tenant is still occupying the Demised Premises). Base Rent and Additional Rent shall proportionately abate during the time that the Demised Premises or any part thereof are unusable by reason of any such damage thereto.

21. Condemnation.

(a) If all of the Demised Premises is taken or condemned for a public or quasi-public use, or if a portion of the Demised Premises is taken or condemned for a public or quasi-public use and the remaining portion thereof is not usable by Tenant in the reasonable opinion of Landlord, this Lease shall

terminate as of the earlier of the date title to the condemned real estate vests in the condemnor or the date on which the Demised Premises are not usable by Tenant. In such event, the Base Rent herein

reserved and all Additional Rent and other sums payable hereunder shall be apportioned and paid in full by Tenant to Landlord to that date, all Base Rent, Additional Rent and other sums payable hereunder prepaid for periods beyond that date shall be repaid by Landlord to Tenant on the date such apportioned payment is made, and neither party shall thereafter have any liability hereunder, except that any obligation or liability of either party under this Lease which has accrued on or prior to such termination date shall survive.

(b) If only part of the Demised Premises is taken or condemned for a public or quasi-public use and this Lease does not terminate pursuant to Section 21(a), Landlord shall, to the extent of the award it receives, restore the Demised Premises to a condition and to a size as nearly comparable as reasonably possible to the condition and size thereof immediately prior to the taking, and there shall be an equitable adjustment to the Base Rent and Additional Rent according to the value of the Demised Premises before and after the taking.

(c) Landlord shall be entitled to receive the entire award in any proceeding with respect to any taking provided for in this Section 21, and Tenant shall receive no part of such award. Nothing herein contained shall be deemed to prohibit Tenant from making a separate claim, against the condemnor, to the extent permitted by law, for the value of Tenant's leasehold estate, moveable trade fixtures, machinery and moving expenses, provided that the making of such claim shall not and does not adversely affect or diminish Landlord's award.

22. Tenant's Default.

(a) The occurrence of any one or more of the following events shall constitute an "Event of Default" of Tenant under this Lease:

(i) if Tenant fails to pay Base Rent or any Additional Rent hereunder as and when such rent becomes due and such failure shall continue for more than ten (10) days after Landlord gives written notice to Tenant of such failure;

(ii) intentionally omitted;

(iii) if the Demised Premises become deserted or abandoned for more than thirty (30) consecutive days;

(iv) if Tenant permits to be done anything which creates a lien upon the Demised Premises and fails to discharge or bond such lien, or post security with Landlord acceptable to Landlord within thirty (30) days after receipt by Tenant of written notice thereof;

(v) if Tenant fails to maintain in force all policies of insurance required by this Lease and such failure shall continue for more than ten (10) days after Landlord gives Tenant written notice of such failure;

(vi) if any petition is filed by or against Tenant under any present or future section or chapter of the Bankruptcy Code, or under any similar law or statute of the United States or any state thereof (which, in the case of an involuntary proceeding, is not permanently discharged, dismissed, stayed, or vacated, as the case may be, within ninety (90) days of commencement), or if any order for relief shall be entered against Tenant in any such proceedings;

(vii) intentionally omitted;

(viii) if a receiver, custodian, or trustee is appointed for the Demised Premises or for all or substantially all of the assets of Tenant, which appointment is not vacated within sixty (60) days following the date of such appointment; or

(ix) if Tenant fails to perform or observe any other term of this Lease and such failure shall continue for more than thirty (30) days after Landlord gives Tenant written notice of such failure, or, if such failure cannot be corrected within such thirty (30) day period, if Tenant does not commence to correct such default within said thirty (30) day period and thereafter diligently prosecute the correction of same to completion within a reasonable time.

(b) Upon the occurrence of any one or more Events of Default, Landlord may, at Landlord's option, without any demand or notice whatsoever (except as expressly required in this Section 22):

(i) Terminate this Lease by giving Tenant notice of termination, in which event this Lease shall expire and terminate on the date specified in such notice of termination and all rights of Tenant under this Lease and in and to the Demised Premises shall terminate. Tenant shall remain liable for all obligations under this Lease arising up to the date of such termination, and Tenant shall surrender the Demised Premises to Landlord on the date specified in such notice; or

(ii) Terminate this Lease as provided in Section 22(b)(i) hereof and recover from Tenant all damages Landlord may incur by reason of Tenant's default, including, without limitation, an amount which, at the date of such termination, is calculated as follows: (1) the value of the excess, if any, of (A) the Base Rent, Additional Rent and all other sums which would have been payable hereunder by Tenant for the period commencing with the day following the date of such termination and ending with the Expiration Date had this Lease not been terminated (the "Remaining Term"), over (B) the aggregate fair market rental value of the Demised Premises for the Remaining Term (which excess, if any shall be discounted to present value at the "Treasury Yield" as defined below for the Remaining Term); plus (2) the costs of recovering possession of the Demised Premises and all other expenses incurred by Landlord due to Tenant's default, including, without limitation, reasonable attorney's fees; plus (3) the unpaid Base Rent and Additional Rent earned as of the date of termination plus any interest and late fees due hereunder, plus other sums of money and damages owing on the date of termination by Tenant to Landlord under this Lease or in connection with the Demised Premises. The amount as calculated above shall be deemed immediately due and payable. The payment of the amount calculated in subparagraph (ii)(1) shall not be deemed a penalty but shall merely constitute payment of liquidated damages, it being understood and acknowledged by Landlord and Tenant that actual damages to Landlord are extremely difficult, if not impossible, to ascertain. "Treasury Yield" shall mean the rate of return in percent per annum of Treasury Constant Maturities for the length of time specified as published in document H.15(519) (presently published by the Board of Governors of the U.S. Federal Reserve System titled "Federal Reserve Statistical Release") for the calendar week immediately preceding the calendar week in which the termination occurs. If the rate of return of Treasury Constant Maturities for the calendar week in question is not published on or before the business day preceding the date of the Treasury Yield in question is to become effective, then the Treasury Yield shall be based upon the rate of return of Treasury Constant Maturities for the length of time specified for the most recent calendar week for which such publication has occurred. If no rate of return for Treasury Constant Maturities is published for the specific length of time specified, the Treasury Yield for such length of time shall be the weighted average of the rates of return of Treasury Constant Maturities most nearly corresponding to the length of the applicable period specified. If the publishing of the rate of return of Treasury Constant Maturities is ever discontinued, then the Treasury Yield shall be based upon the index which is published by the Board of Governors of the U.S. Federal Reserve System in replacement thereof or, if no such replacement index is published, the index which, in Landlord's reasonable determination, most nearly corresponds to the rate of return of Treasury Constant Maturities. In determining the aggregate fair market rental value pursuant to subparagraph (ii)(1)(B) above, the parties hereby agree that, at the time Landlord seeks to enforce this remedy, all relevant factors should be considered, including, but not limited to, (a) the length of time remaining in the Term, (b) the then current market conditions in the general area in which the Building is located, (c) the likelihood of reletting the Demised Premises for a period of time equal to the remainder of the Term, (d) the net effective rental rates then being obtained by landlords for similar type space of similar size in similar type buildings in the general area in which the Building is located, (e) the vacancy levels in the general area in which the Building is located, (f) current levels of new construction that will be completed during the remainder of the Term and how this construction will likely affect vacancy rates and rental rates and (g) inflation; or

(iii) Intentionally Omitted

(iv) Without terminating this Lease, in its own name but as agent for Tenant, enter into and upon and take possession of the Demised Premises or any part thereof. Any property remaining in the Demised Premises may be removed and stored in a warehouse or elsewhere at the cost of, and for the account of, Tenant without Landlord being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby unless caused by Landlord's negligence. Thereafter, Landlord may, but shall not be obligated to, lease to a third party the Demised Premises or any portion thereof as the agent of Tenant upon such terms and conditions as Landlord may deem necessary or desirable in order to relet the Demised Premises. The remainder of any rentals received by Landlord from such reletting, after the payment of any indebtedness due hereunder from Tenant to Landlord, and the payment of any costs and expenses of such reletting, shall be held by Landlord to the extent of and for application in payment of future rent owed by Tenant, if any, as the same may become due and payable hereunder. If such rentals received from such reletting shall at any time or from time to time be less than sufficient to pay to Landlord the entire sums then due from Tenant hereunder, Tenant shall pay any such deficiency to Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for any such previous default provided same has not been cured; or

(v) Without terminating this Lease, and with or without notice to Tenant, enter into and upon the Demised Premises and, without being liable for prosecution or any claim for damages therefor, maintain the Demised Premises and repair or replace any damage thereto or do anything or make any payment for which Tenant is responsible hereunder. Tenant shall reimburse Landlord immediately upon demand for any expenses which Landlord incurs in thus effecting Tenant's compliance under this Lease and Landlord shall not be liable to Tenant for any damages with respect thereto; or

(vi) Without liability to Tenant or any other party and without

constituting a constructive or actual eviction, suspend or discontinue
furnishing or rendering to Tenant any property,

material, labor, utilities or other service, wherever Landlord is obligated to furnish or render the same so long as an Event of Default exists under this Lease; or

(vii) With or without terminating this Lease, allow the Demised Premises to remain unoccupied and collect rent from Tenant as it comes due; or

(viii) Pursue such other remedies as are available at law or equity.

(c) If this Lease shall terminate as a result of or while there exists an Event of Default hereunder, any funds of Tenant held by Landlord may be applied by Landlord to any damages payable by Tenant (whether provided for herein or by law) as a result of such termination or default.

(d) Neither the commencement of any action or proceeding, nor the settlement thereof, nor entry of judgment thereon shall bar Landlord from bringing subsequent actions or proceedings from time to time, nor shall the failure to include in any action or proceeding any sum or sums then due be a bar to the maintenance of any subsequent actions or proceedings for the recovery of such sum or sums so omitted.

(e) No agreement to accept a surrender of the Demised Premises and no act or omission by Landlord or Landlord's agents during the Term shall constitute an acceptance or surrender of the Demised Premises unless made in writing and signed by Landlord. No re-entry or taking possession of the Demised Premises by Landlord shall constitute an election by Landlord to terminate this Lease unless a written notice of such intention is given to Tenant. No provision of this Lease shall be deemed to have been waived by either party unless such waiver is in writing and signed by the party making such waiver. Landlord's acceptance of Base Rent or Additional Rent in full or in part following an Event of Default hereunder shall not be construed as a waiver of such Event of Default. No custom or practice which may grow up between the parties in connection with the terms of this Lease shall be construed to waive or lessen either party's right to insist upon strict performance of the terms of this Lease, without a written notice thereof to the other party.

(f) If an Event of Default shall occur, Tenant shall pay to Landlord, on demand, all expenses incurred by Landlord as a result thereof, including reasonable attorneys' fees, court costs and expenses actually incurred.

23. Landlord's Right of Entry. Tenant agrees to permit Landlord and the authorized representatives of Landlord and of Lender to enter upon the Demised Premises at all reasonable times for the purposes of inspecting the Demised Premises and Tenant's compliance with this Lease, and making any necessary repairs thereto; provided that, except in the case of an emergency, Landlord shall give Tenant reasonable prior notice of Landlord's intended entry upon the Demised Premises. Nothing herein shall imply any duty upon the part of Landlord to do any work required of Tenant hereunder, and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform it. Landlord shall not be liable for inconvenience, annoyance, disturbance or other damage to Tenant by reason of making such repairs or the performance of such work in the Demised Premises or on account of bringing materials, supplies and equipment into or through the Demised Premises during the course thereof, and the obligations of Tenant under this Lease shall not thereby be affected; provided, however, that Landlord shall use reasonable efforts not to disturb or otherwise interfere with Tenant's operations in the Demised Premises in making such repairs or performing such work. Landlord also shall have the right upon reasonable notice to enter the Demised Premises at all reasonable times to exhibit the Demised Premises to any prospective purchaser or mortgagee thereof, or, during the last six (6) months of the Term, to any prospective tenant thereof.

24. Lender's Rights.

(a) For purposes of this Lease:

(i) "Lender" as used herein means the current holder of a Mortgage;

(ii) "Mortgage" as used herein means any or all mortgages, deeds to secure debt, deeds of trust or other instruments in the nature thereof which may now or hereafter affect or encumber Landlord's title to the Demised Premises, and any amendments, modifications, extensions or renewals thereof.

(b) Except as hereinafter provided, this Lease and all rights of Tenant hereunder are and shall be subject and subordinate to the lien and security title of any Mortgage. Tenant recognizes and acknowledges the right of Lender to foreclose or exercise the power of sale against the Demised Premises under any Mortgage. Tenant's subordination hereunder shall be conditioned upon entering into a subordination, nondisturbance and attornment agreement with the Mortgagee, reasonably acceptable to Tenant and consistent with this Paragraph 24.

(c) Tenant shall, in confirmation of the subordination set forth in Section 24(b) and notwithstanding the fact that such subordination is self-operative, and no further instrument or subordination shall be necessary, upon demand, at any time or times, execute, acknowledge, and deliver to

Landlord or to Lender any and all instruments reasonably acceptable to Tenant requested by either of them to evidence such subordination.

(d) At any time during the Term, Lender may, by written notice to Tenant, make this Lease superior to the lien of its Mortgage. If requested by Lender, Tenant shall, upon demand, at any time or times, execute, acknowledge, and deliver to Lender, any and all instruments reasonably acceptable to Tenant that may be necessary to make this Lease superior to the lien of any Mortgage.

(e) If Lender (or Lender's nominee, or other purchaser at foreclosure) shall hereafter succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease, Tenant shall attorn to and recognize such successor as Tenant's landlord under this Lease without change in the terms and provisions of this Lease and shall promptly execute and deliver any instrument that may be necessary to evidence such attornment, provided that such successor shall not be bound by (i) any payment of Base Rent or Additional Rent for more than one month in advance, except prepayments in the nature of security for the performance by Tenant of its obligations under this Lease, and then only if such prepayments have been deposited with and are under the control of such successor, (ii) any provision of any amendment to the Lease to which Lender has not consented, (iii) the defaults of any prior landlord under this Lease, or (iv) any offset rights arising out of the defaults of any prior landlord under this Lease. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between each successor landlord and Tenant, subject to all of the terms, covenants and conditions of this Lease.

(f) In the event there is a Mortgage at any time during the Term, Landlord shall use reasonable efforts to cause the Lender to enter into a subordination, nondisturbance and attornment agreement with Tenant reasonably satisfactory to Tenant and consistent with this Section 24.

25. Estoppel Certificate. Landlord and Tenant agree, at any time, and from time to time, within fifteen (15) days after written request of the other, to execute, acknowledge and deliver a statement in writing in recordable form to the requesting party and/or its designee certifying that: (i) this Lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect, as modified), (ii) the dates to which Base Rent, Additional Rent and other charges have been paid, (iii) whether or not, to the best of its knowledge, there exists any failure by the requesting party to perform any term, covenant or condition contained in this Lease, and, if so, specifying each such failure, (iv) (if such be the case) Tenant has unconditionally accepted the Demised Premises and is conducting its business therein, and (v) and as to such additional matters as may be requested by Landlord and approved by Tenant, it being intended that any such statement delivered pursuant hereto may be relied upon by the requesting party and by any purchaser of title to the Demised Premises or by any mortgagee or any assignee thereof or any party to any sale-leaseback of the Demised Premises, or the landlord under a ground lease affecting the Demised Premises.

26. Landlord Liability. No owner of the Demised Premises, whether or not named herein, shall have liability hereunder after it ceases to hold title to the Demised Premises. Neither Landlord nor any officer, director, shareholder, partner or principal of Landlord, whether disclosed or undisclosed, shall be under any personal liability with respect to any of the provisions of this Lease. In the event Landlord is in breach or default with respect to Landlord's obligations or otherwise under this Lease, Tenant shall look solely to the equity of Landlord in the Building for the satisfaction of Tenant's remedies. It is expressly understood and agreed that Landlord's liability under the terms, covenants, conditions, warranties and obligations of this Lease shall in no event exceed the loss of Landlord's equity interest in the Building.

27. Notices. Any notice required or permitted to be given or served by either party to this Lease shall be deemed given when made in writing, and either (i) personally delivered, (ii) deposited with the United States Postal Service, postage prepaid, by registered or certified mail, return receipt requested, or (iii) delivered by licensed overnight delivery service providing proof of delivery, properly addressed to the address set forth in Section 1(m) (as the same may be changed by giving written notice of the aforesaid in accordance with this Section 27). If any notice mailed is properly addressed with appropriate postage but returned for any reason, such notice shall be deemed to be effective notice and to be given on the date of mailing.

28. Brokers. Tenant represents and warrants to Landlord that, except for those parties set forth in Section 1(o) (the "Brokers"), Tenant has not engaged or had any conversations or negotiations with any broker, finder or other third party concerning the leasing of the Demised Premises to Tenant who would be entitled to any commission or fee based on the execution of this Lease. Tenant hereby further represents and warrants to Landlord that Tenant is not receiving and is not entitled to receive any rebate, payment or other remuneration, either directly or indirectly, from the Brokers, and that it is not otherwise sharing in or entitled to share in any commission or fee paid to the Brokers by Landlord or any other party in connection with the execution of this Lease, either directly or indirectly. Tenant hereby indemnifies Landlord against and from any claims for any brokerage commissions (except those payable to the Brokers, all of which are payable by Landlord pursuant to a separate agreement) and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, for any breach of the foregoing. The foregoing indemnification shall survive the termination of this

Lease for any reason.

29. Assignment and Subleasing. Tenant may not assign, mortgage, pledge, encumber or otherwise transfer this Lease, or any interest hereunder, or sublet the Demised Premises, in whole or in part, without on each occasion first obtaining the prior express written consent of Landlord, which consent Landlord shall not unreasonably withhold or delay. Permitted subtenants or assignees shall become liable directly to Landlord for all obligations of Tenant hereunder, without, however, relieving Tenant of any of its liability hereunder. No such assignment, subletting, occupancy or collection shall be deemed the acceptance of the assignee, tenant or occupant, as Tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this Lease. Any assignment or sublease consented to by Landlord shall not relieve Tenant (or its assignee) from obtaining Landlord's consent to any subsequent assignment or sublease.

30. Termination or Expiration.

(a) No termination of this Lease prior to the normal ending thereof, by lapse of time or otherwise, shall affect Landlord's right to collect rent for the period prior to termination thereof.

(b) Except as provided in Section 18 above, at the expiration or earlier termination of the Term of this Lease, Tenant shall surrender the Demised Premises and all improvements, alterations and additions thereto, and keys therefor to Landlord, clean and neat, and in the same condition as at the Lease Commencement Date, excepting normal wear and tear, condemnation and casualty other than that required to be insured against by Tenant hereunder.

(c) If Tenant remains in possession of the Demised Premises after expiration of the Term, with or without Landlord's acquiescence and without any express agreement of the parties, Tenant shall be a tenant-at-sufferance at 125% of the Base Rent in effect at the end of the Term for sixty (60) days, and thereafter at one hundred fifty percent (150%) of the Base Rent in effect at the end of the Term. Tenant shall also continue to pay all other Additional Rent due hereunder, and there shall be no renewal of this Lease by operation of law. In addition to the foregoing, Tenant shall be liable for all costs incurred by Landlord in enforcing the provisions of this Section 30. No receipt of money by Landlord from Tenant after the termination of this Lease or Tenant's right of possession of the Demised Premises shall reinstate, continue or extend the Term or Tenant's right of possession.

31. Intentionally Omitted.

32. Late Payments. In the event any installment of rent, inclusive of Base Rent, or Additional Rent or other sums due hereunder, if any, is not paid within ten (10) days after the date when due, Tenant shall pay interest on the amount past due at the lesser of (i) the maximum interest rate allowed by law or (ii) a rate of fifteen percent (15%) per annum (the "Interest Rate") to defray the additional expenses incurred by Landlord in processing such payment.

33. Rules and Regulations. Tenant agrees to abide by the rules and regulations set forth on Exhibit D attached hereto, as well as other rules and regulations reasonably promulgated by Landlord from time to time, so long as such rules and regulations are uniformly enforced against all tenants of Landlord in the Project and reasonably acceptable to Tenant.

34. Quiet Enjoyment. So long as Tenant has not committed an Event of Default hereunder, Landlord agrees that Tenant shall have the right to quietly use and enjoy the Demised Premises for the Term.

35. Miscellaneous.

(a) The parties hereto hereby covenant and agree that Landlord shall receive the Base Rent, Additional Rent and all other sums payable by Tenant hereinabove provided as net income from the Demised Premises, without any abatement (except as set forth in Section 20 and Section 21), reduction, set-off, counterclaim, defense or deduction whatsoever, except as set forth in Exhibit C attached hereto.

(b) If any clause or provision of this Lease is determined to be illegal, invalid or unenforceable under present or future laws effective during the Term, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and that in lieu of such illegal, invalid or unenforceable clause or provision there shall be substituted a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

(c) All rights, powers, and privileges conferred hereunder upon the parties hereto shall be cumulative, but not restrictive to those given by law.

(d) Time is of the essence of this Lease.

(e) No failure of Landlord or Tenant to exercise any power given Landlord or Tenant hereunder or to insist upon strict compliance by Landlord or Tenant with its obligations hereunder, and no

custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's or Tenant's rights to demand exact compliance with the terms hereof.

(f) This Lease contains the entire agreement of the parties hereto as to the subject matter of this Lease and no representations, inducements, promises or agreements, oral or otherwise, between the parties not embodied herein shall be of any force and effect. The masculine (or neuter) pronoun, singular number shall include the masculine, feminine and neuter gender and the singular and plural number.

(g) This contract shall create the relationship of landlord and tenant between Landlord and Tenant; no estate shall pass out of Landlord; Tenant has a usufruct, not subject to levy and sale, and not assignable by Tenant except as expressly set forth herein.

(h) Except to the extent required by any governmental agency in connection with meeting the requirements of the PILOT Program (as defined in Special Stipulation 12 of Exhibit C to this Lease), under no circumstances shall Tenant have the right to record this Lease or a memorandum thereof.

(i) The captions of this Lease are for convenience only and are not a part of this Lease, and do not in any way define, limit, describe or amplify the terms or provisions of this Lease or the scope or intent thereof.

(j) This Lease may be executed in multiple counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same agreement.

(k) This Lease shall be interpreted under the laws of the State where the Demised Premises are located.

(l) The parties acknowledge that this Lease is the result of negotiations between the parties, and in construing any ambiguity hereunder no presumption shall be made in favor of either party. No inference shall be made from any item which has been stricken from this Lease other than the deletion of such item.

36. Special Stipulations. The Special Stipulations, if any, attached hereto as Exhibit C, are incorporated herein and made a part hereof, and to the extent of any conflict between the foregoing provisions and the Special Stipulations, the Special Stipulations shall govern and control.

37. Lease Date. For purposes of this Lease, the term "Lease Date" shall mean the later date upon which this Lease is signed by Landlord and Tenant.

38. Authority. If Tenant is not a natural person, Tenant shall cause its corporate secretary or general partner, as applicable, to execute the certificate attached hereto as Exhibit E. Tenant is authorized by all required corporate or partnership action to enter into this Lease and the individual(s) signing this Lease on behalf of Tenant are each authorized to bind Tenant to its terms.

39. No Offer Until Executed. The submission of this Lease to Tenant for examination or consideration does not constitute an offer to lease the Demised Premises and this Lease shall become effective, if at all, only upon the execution and delivery thereof by Landlord and Tenant.

40 Guaranty. It shall be a condition of this Lease that Daisytek International Corporation, a Delaware corporation ("Guarantor"), execute and deliver to Landlord a guaranty in the form attached hereto as Exhibit "F" (the "Guaranty"), pursuant to which Guarantor unconditionally guarantees the performance by Tenant of its obligations hereunder, all as more particularly set forth in the Guaranty.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands under seals, the day and year first above written.

Date: -----

LANDLORD:

SHELBY DRIVE CORPORATION, a Florida corporation

By: -----

Name: -----

Title: -----

Attest: -----

Name: -----

Title: -----

[CORPORATE SEAL]

Date: -----

TENANT:

PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation

By: -----

Name: -----

Title: -----

Attest: -----

Name: -----

Title: -----

[CORPORATE SEAL]

ATTESTATION

Landlord:

STATE OF _____
COUNTY OF _____

BEFORE ME, a Notary Public in and for said County, personally appeared _____ and _____, known to me to be the person(s) who, as _____ and _____, respectively, of Landlord, signed the same, and acknowledged to me that they did so sign said instrument in the name and upon behalf of said company as officers of said company, that the same is their free act and deed as such officers, respectively, and they were duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporate seal of said company.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name, and affixed my official seal, this ____ day of _____, 19__.

Notary Public
My Commission Expires:

Tenant:

STATE OF _____
COUNTY OF _____

BEFORE ME, a Notary Public in and for said County, personally appeared _____ and _____, known to me to be the person(s) who, as _____ and _____, respectively, of Priority Fulfillment Services, Inc., the corporation which executed the foregoing instrument in its capacity as Tenant, signed the same, and acknowledged to me that they did so sign said instrument in the name and upon behalf of said corporation as officers of said corporation, that the same is their free act and deed as such officers, respectively, and they were duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporate seal of said corporation.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name, and affixed my official seal, this ____ day of _____, 19__.

Notary Public
My Commission Expires:

Section -----	Subject -----
1	Basic Lease Provisions
2	Demised Premises
3	Term
4	Base Rent
5	Intentionally Omitted
6	Operating Expenses and Additional Rent
7	Use of Demised Premises
8	Insurance
9	Utilities
10	Maintenance and Repairs
11	Tenant's Personal Property; Indemnity
12	Tenant's Fixtures
13	Signs
14	Intentionally Omitted
15	Governmental Regulations
16	Environmental Matters
17	Construction of Demised Premises
18	Tenant Alterations and Additions
19	Services by Landlord
20	Fire and Other Casualty
21	Condemnation
22	Tenant's Default
23	Landlord's Right of Entry
24	Lender's Rights
25	Estoppel Certificate
26	Landlord's Liability
27	Notices
28	Brokers
29	Assignment and Subleasing
30	Termination or Expiration
31	Intentionally Omitted
32	Late Payments
33	Rules and Regulations
34	Quiet Enjoyment
35	Miscellaneous
36	Special Stipulations
37	Lease Date
38	Authority
39	No Offer Until Executed
40	Guaranty

Exhibit "D" Rules and Regulations
Exhibit "E" Certificate of Authority
Exhibit "F" Guaranty

INDUSTRIAL LEASE AGREEMENT
BETWEEN
SHELBY DRIVE CORPORATION
AS LANDLORD
AND
PRIORITY FULFILLMENT SERVICES, INC.
AS TENANT

EXHIBIT A
DEMISED PREMISES

a-1

EXHIBIT B

LAND

b-1

EXHIBIT C

SPECIAL STIPULATIONS

The Special Stipulations set forth herein are hereby incorporated into the body of the lease to which these Special Stipulations are attached (the "Lease"), and to the extent of any conflict between these Special Stipulations and the preceding language, these Special Stipulations shall govern and control.

1. Operating Expenses.

(a) Tenant shall have an opportunity, upon reasonable notice, at reasonable times, to review Landlord's records with regard to the calculation of Operating Expenses.

(b) Notwithstanding the provisions of Paragraph 6 of the Lease, (i) Tenant's annual share of property management fees shall not exceed the amount customarily charged in the Memphis, Tennessee, area by managers of properties similar to the Project, and during the initial Term shall in no event exceed the lesser of (A) two and one-half percent (2.5%) of Annual Base Rent payable to Landlord hereunder, and (B) \$0.08 per square foot of space within the Building, (ii) Operating Expenses shall include attorneys' fees only to the extent they pertain to protesting and otherwise attempting to reduce property taxes assessed against the Building, and (iii) Operating Expenses shall not include federal or state income or franchise taxes imposed on or measured by the income or capital of Landlord.

(c) As of the Lease Date, the Building, together with the Building Appurtenance Area, comprise 11.807% of the Project for purposes of calculating dues and assessments payable by Landlord (and reimbursed by Tenant pursuant to Section 6(a) of this Lease) under the Protective Covenants.

2. Use of the Demised Premises. Tenant's use of tractor trailers, forklifts, and other equipment normally used by Tenant pursuant to Paragraph 1(m) of the Lease shall not be deemed to violate Paragraph 7 of this Lease.

3. Insurance. Landlord agrees to insure the building shell of the Building, which shall include the exterior walls, roof, foundation and structural frame of the Building, against perils included within the standard all risks fire and casualty insurance.

4. Intentionally Omitted

5. Environmental Matters.

(a) Landlord represents as of the Lease Date that (i) Landlord has not treated, stored or disposed of any Hazardous Substances within or upon the Building; (ii) to Landlord's actual knowledge, no party has treated, stored or disposed of Hazardous Substances upon or within the Building, except as may be set forth in the Phase I Environmental Site Assessment Update: Building N Expansion, Southpark Industrial Park in Memphis, Tennessee, dated December, 1994, a copy of which has been received by Tenant; (iii) to Landlord's actual knowledge, the Building contains no asbestos, asbestos-containing materials, or polychlorinated biphenyls (PCBs); (iv) Landlord has received no written notice that the Building is currently or has been in violation of any Environmental Laws; (v) to Landlord's actual knowledge, Landlord has obtained any permits required by Environmental Laws which pertain to Landlord's use of the Building; (vi) to Landlord's actual knowledge, no underground tanks or underground containers of any kind are located on the Building, or were located on the Building and subsequently moved or filled; and (vii) to Landlord's actual knowledge, the Building is not subject to any judgment, decree, order or citation which relates to or arises out of a violation of any Environmental Law, or that requires Landlord to clean up, remove, or take remedial action or other responsive action pursuant to any Environmental Law relating to the Building.

(b) Landlord hereby agrees to indemnify and hold harmless Tenant, its permitted subtenants and assigns, from and against any and all reasonable and actual damage, fine, expense, loss, and liability suffered by Tenant (including attorneys fees) by reason of Landlord's breach of the representations set forth in this Special Stipulation 5. In the event of such a breach by Landlord, Landlord shall be responsible for studying, remedying, removing, disposing or otherwise addressing any Hazardous Substances which are upon or within the Demised Premises, the Building or the Project as of the Lease Date and which gave rise to such breach, and Tenant shall not perform such acts unless (i) Tenant is specifically required by applicable law to perform such acts, and (ii) Landlord has failed or refused to perform such acts after having been afforded reasonable notice by Tenant. The indemnity contained herein shall survive the termination or expiration of this Lease for a period of two (2) years after the effective date of such termination or expiration.

(c) In the event that during the Term the Demised Premises shall be determined to contain Contamination caused by Landlord, and the remediation of such contamination shall cause the Demised Premises to be untenable for a period of at least ten (10) consecutive days, Tenant, without waiving any other remedy Tenant may have, may by written notice to Landlord, given within five (5) days after the expiration of such 10-day period, terminate this Lease, and Tenant shall thereafter have no

further obligations under this Lease except as otherwise expressly provided. Any other provision of this Lease to the contrary notwithstanding, Tenant shall not be obligated to pay Base Rent or Additional Rent for and during such period of untenability.

6. Landlord Default. In the event that Tenant shall receive a final, nonappealable judgment against Landlord, its successors or assigns, in a court of competent jurisdiction in the State of Tennessee, as a result of any breach of this Lease, then Tenant, without waiving any other remedy Tenant may have, may offset the amount of any monetary judgment thus obtained, together with Tenant's reasonable attorneys' fees actually incurred in connection with obtaining such judgment, against any installment of Base Rent or Additional Rent coming due to Landlord thereafter.

7. Landlord Liability. For purposes of Section 26 of the Lease, Landlord shall at all times be deemed to have an equity interest in the Building of at least 25% of the fair market value of the Building, such that in the event Landlord shall fail actually to have such equity interest, Landlord shall have liability in excess of Landlord's equity interest in the Building up to a total liability in an amount which equals 25% of the fair market value of the Building.

8. Quiet Enjoyment. Landlord agrees that so long as Tenant pays the Minimum Rent and Additional Rent reserved in this Lease and timely performs its obligations hereunder, Tenant shall have the right to quietly use and enjoy the Demised Premises for the Term hereof.

9. Intentionally Omitted

10. Extension Option.

(a) Landlord hereby grants to Tenant one (1) option to extend the Term for a period of four (4) years, such option to be exercised by Tenant giving written notice of its exercise to Landlord in the manner provided in this Lease at least one hundred eighty (180) days prior to (but not more than two hundred ten (210) days prior to) the expiration of the Term, as it may have been previously extended. No extension option may be exercised by Tenant if an Event of Default has occurred and is then continuing or any facts or circumstances then exist which, with the giving of notice or the passage of time, or both, would constitute an Event of Default either at the time of exercise of the option or at the time the Term would otherwise have expired if the option had not been exercised.

(b) If Tenant exercises its option to extend the Term, Landlord shall, within thirty (30) days after the receipt of Tenant's notice of exercise, notify Tenant in writing of Landlord's reasonable determination of the Base Rent for the Demised Premises, which amount shall be the greater of (i) the Base Rent in effect for the initial Term, and (ii) fair market rent for the Demised Premises, determined by Landlord by taking into account all relevant factors for space of this type in the southeast Memphis, Tennessee area. Tenant shall have thirty (30) days from its receipt of Landlord's notice to notify Landlord in writing that Tenant agrees with Landlord's determination of the Base Rent and therefore that Base Rent for the Demised Premises for the extended term shall be the Base Rent set forth in Landlord's notice to Tenant. If Tenant does not notify Landlord of such agreement within thirty (30) days of its receipt of Landlord's notice, Tenant shall be deemed to have retracted its option to extend the Term, in which case the Term, as it may have been previously extended, shall expire on its scheduled expiration date and Tenant's option to extend the Term shall be void and of no further force and effect.

(c) Except for the Base Rent, which shall be determined as set forth in subparagraph (b) above, leasing of the Demised Premises by Tenant for the extended term shall be subject to all of the same terms and conditions set forth in this Lease, including Tenant's obligation to pay Tenant's share of Operating Expenses as provided in this Lease; provided, however, that any improvement allowances, termination rights, rent abatements or other concessions applicable to the Demised Premises during the initial Term shall not be applicable during any such extended term, nor shall Tenant have any additional extension options unless expressly provided for in this Lease. Landlord and Tenant shall enter into an amendment to this Lease to evidence Tenant's exercise of its renewal option. If this Lease is guaranteed, it shall be a condition of Landlord's granting the renewal that Tenant deliver to Landlord a reaffirmation of the guaranty in which the guarantor acknowledges Tenant's exercise of its renewal option and reaffirms that the guaranty is in full force and effect and applies to said renewal.

11. Sublease. Tenant hereby acknowledges that fee simple title to the Demised Premises is, as of the Lease Date, vested in the Industrial Development Board of the City of Memphis and County of Shelby, Tennessee (the "IDB"), and that Landlord leases the Demised Premises from the IDB pursuant to that certain Lease Agreement between the IDB and Industrial Developments International, Inc., predecessor in interest to Landlord, dated December 8, 1993, and recorded in the real property records of Shelby County, Tennessee as Instrument Number EA 9544, as amended by that certain First Amendment to Lease Agreement dated December 16, 1994, and recorded in the real property records of Shelby County, Tennessee as Instrument Number EV 7310 (as so amended, the "PILOT Lease"). Tenant further acknowledges that this Lease is a sublease subject to the terms and conditions of the PILOT Lease, and that this Lease shall survive and become a prime lease if the Term shall extend beyond the term of the PILOT Lease. Tenant shall

execute any and all documents necessary to confirm the status of this Lease as a sublease of the PILOT Lease, and/or of the survival of this Lease beyond the expiration or termination of the PILOT Lease, as applicable.

12. PILOT Program.

(a) Landlord's predecessor in interest entered into the PILOT Lease to enable Starter (as hereinafter defined) to reduce or freeze the real estate taxes and other impositions for the Demised Premises by participating in the Payment In Lieu Of Taxes ("PILOT Program") available through the City of Memphis and Shelby County, Tennessee. In connection with Tenant's intended use and occupancy of the Demised Premises, Tenant has applied for, and has been granted by the IDB, the right to participate in the PILOT Program. Landlord hereby agrees to cooperate with Tenant as reasonably necessary to fully implement the PILOT Program in connection with Tenant's lease of the Demised Premises, including, without limitation, executing such amendment to, or restatement of, the PILOT Lease as may be reasonably required with respect thereto (provided the form of such amendment or restatement, or any other document necessary to implement the PILOT Program, is in form reasonably acceptable to Landlord); provided, however, that Landlord shall not be obligated to incur any expenses in connection with such cooperation. Tenant shall promptly reimburse to Landlord any and all of Landlord's expenses related to the PILOT Program, including, but not limited to, attorneys' fees and the cost to update Landlord's leasehold title insurance policy insuring Landlord's interest in the Demised Premises. Landlord shall pass through to Tenant all reductions or abatements applicable to the Demised Premises as a result of Tenant's participation in the PILOT Program.

(b) Tenant shall review and approve the PILOT Lease, as the same may be hereinafter amended or restated, and shall comply with all terms and conditions thereof. Tenant acknowledges that Additional Rent under this Lease to be paid by Tenant shall include payment of (or reimbursement to Landlord for) any payments Landlord is required to make under the PILOT Lease (as the same may be hereinafter amended or restated). Tenant shall indemnify Landlord from and against all claims, damages, costs and expenses, including, without limitation, reasonable attorneys' fees and court costs, which Landlord may suffer as a result of a default under the PILOT Lease (as the same may be hereinafter amended or restated) caused by the acts or omissions of Tenant.

(c) Notwithstanding anything to the contrary contained herein, provided that this Lease is in full force and effect and Tenant is not in default under this Lease (and has not caused a default under the PILOT Lease), Landlord hereby agrees that Landlord shall (i) comply in all material respect with all obligations of the "Lessee" under the PILOT Lease in order to preserve unto Tenant all of the benefits of the PILOT Program awarded to Tenant, (ii) reasonably cooperate with Tenant in ensuring Tenant's receipt of any notices of default under the PILOT Lease issued by the IDB, and an opportunity to cure any such defaults, and (iii) not exercise any option under the PILOT Lease in favor of Landlord to purchase the Demised Premises prior to the expiration or earlier termination of the PILOT period approved for Tenant by the IDB, without Tenant's prior written consent.

13. Blanket Insurance. Any insurance provided for in Section 8(a) may be maintained by means of a policy or policies of blanket insurance, covering additional items or locations or insureds, provided, however, that:

(i) Landlord and any other parties in interest from time to time designated by Landlord to Tenant shall be named as an additional insured thereunder as its interest may appear;

(ii) the coverage afforded Landlord and any such other parties in interest will not be reduced or diminished by reason of the use of such blanket policy of insurance;

(iii) the limits of such blanket policy of insurance apply separately to each location covered thereby; and

(iv) the requirements set forth in Section 8 are otherwise satisfied.

14. Existing Tenant. Tenant acknowledges that as of the Lease Date, Starter Corporation ("Starter") is the tenant currently occupying the Demised Premises pursuant to a lease between Landlord (or Landlord's predecessor in interest) and Starter (the "Starter Lease"). Starter has filed for bankruptcy and the Official Committee of Unsecured Creditors (appointed in lieu of a trustee) handling the bankruptcy is expected to reject the Starter Lease (the actual date of any such rejection being referred to herein as the "Starter Rejection Date", and the effective date of any such rejection being referred to herein as the "Starter Effective Date"). Landlord agrees to use reasonable good faith efforts to cause Starter to vacate the Demised Premises (except with respect to any personalty or trade fixtures that will remain in the Demised Premises pursuant to a separate agreement between Starter and Tenant) promptly following the later to occur of (a) the Starter Rejection Date, and (b) the Starter Effective Date (such later date being referred to herein as the "Starter Termination Date"), subject to any orders of the applicable bankruptcy court to the contrary or restrictions or limitations in federal and bankruptcy laws. In the event the Starter Termination Date occurs after September 1, 1999, or in the event Starter refuses or fails to vacate the Demised Premises after the Starter Termination Date (each such event being referred to herein as a "Delay"), the obligations of Tenant hereunder shall remain as set forth herein except that the Lease Commencement Date, the Base Rent Commencement Date and the Expiration Date shall be postponed one day for each day of Delay. In the event the Official Committee of Unsecured Creditors elects to accept

the Starter Lease, Landlord shall promptly notify Tenant, and this Lease shall terminate effective as of the date of such notification, in which event, this Lease and the obligations of the parties hereunder shall terminate except for such obligations as are to survive any such termination by their express terms. Notwithstanding anything in this Special Stipulation 14 to the contrary, in the event the Official Committee of Unsecured Creditors fails either to accept or to reject the Starter Lease on or before the sixtieth (60th) day following the Lease Date, then either party shall have the right to terminate this Lease, to be exercised by delivering written notice to the other party on or before the seventieth (70th) day following the Lease Date (provided the Official Committee of Unsecured Creditors has not rejected the Starter Lease prior to such party's receipt of such termination notice), and thereafter neither Landlord nor Tenant shall have any further obligation hereunder.

EXHIBIT D

RULES AND REGULATIONS

These Rules and Regulations have been adopted by Landlord for the mutual benefit and protection of all the tenants of the Building in order to insure the safety, care and cleanliness of the Building and the preservation of order therein.

1. The sidewalks shall not be obstructed or used for any purpose other than ingress and egress. No tenant and no employees of any tenant shall go upon the roof of the Building without the consent of Landlord.

2. No awnings or other projections shall be attached to the outside walls of the Building; provided that nothing herein shall prohibit Tenant from installing dock seals or similar devices on or near dock doors.

3. The plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags or other substances, including Hazardous Substances, shall be thrown therein.

4. No tenant shall cause or permit any objectionable or offensive odors to be emitted from the Demised Premises.

5. The Demised Premises shall not be used for lodging or sleeping or for any immoral or illegal purposes.

6. No tenant shall make, or permit to be made any unseemly or disturbing noises, sounds or vibrations or disturb or interfere with tenants of this or neighboring buildings or premises or those having business with them.

7. Each tenant must, upon the termination of this tenancy, return to the Landlord all keys of stores, offices, and rooms, either furnished to, or otherwise procured by, such tenant, and in the event of the loss of any keys so furnished, such tenant shall pay to the Landlord the cost of replacing the same or of changing the lock or locks opened by such lost key if Landlord shall deem it necessary to make such change.

8. Canvassing, soliciting and peddling in the Building and the Project are prohibited and each tenant shall cooperate to prevent such activity.

9. Landlord will direct electricians as to where and how telephone or telegraph wires are to be introduced. No boring or cutting for wires or stringing of wires will be allowed without written consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Demised Premises shall be subject to the approval of Landlord, which shall not be unreasonably withheld.

10. Parking spaces associated with the Building are intended for the exclusive use of passenger automobiles. Except for intermittent deliveries, no vehicles other than passenger automobiles may be parked in a parking space without the express written permission of Landlord. Trucks and tractor trailers may only be parked at designated areas of the Building. Trucks and tractor trailers shall not block access to the Building.

11. No tenant shall use any area within the Project for storage purposes other than the interior of the Demised Premises.

EXHIBIT E
CERTIFICATE OF AUTHORITY
CORPORATION

The undersigned, Secretary of Priority Fulfillment Services, Inc., a Delaware corporation ("Tenant"), hereby certifies as follows to Shelby Drive Corporation, a Florida corporation ("Landlord"), in connection with Tenant's proposed lease of premises in Building I, at Southpark, Shelby County, Tennessee (the "Premises"):

1. Tenant is duly organized, validly existing and in good standing under the laws of the State of _____, and duly qualified to do business in the State of Tennessee.

2. That the following named persons, acting individually, are each authorized and empowered to negotiate and execute, on behalf of Tenant, a lease of the Premises and that the signature opposite the name of each individual is an authentic signature:

----- (name)	----- (title)	----- (signature)
----- (name)	----- (title)	----- (signature)
----- (name)	----- (title)	----- (signature)

3. That the foregoing authority was conferred upon the person(s) named above by the Board of Directors of Tenant, at a duly convened meeting held _____, 19__.

Secretary

[CORPORATE SEAL]

EXHIBIT F

GUARANTY

THIS GUARANTY (this "Guaranty"), made and entered into this ___ day of _____, 1999, by DAISYTEK INTERNATIONAL CORPORATION, a Delaware corporation (hereinafter referred to as "Guarantor") in favor of SHELBY DRIVE CORPORATION, a Florida corporation (hereinafter called "Landlord") and any subsequent owner or holder of the Lease (as hereinafter defined).

R E C I T A L S :

Landlord has entered into an Industrial Lease Agreement ("Lease") with PRIORITY FULFILLMENT SERVICES, INC., a Delaware corporation ("Tenant"), in which Guarantor has a direct or indirect financial interest or affiliation, which Lease was executed by Tenant on _____, 1999, and provides for the leasing to Tenant of approximately 442,184 square feet of space, comprising all of Building I within Southpark, in Shelby County, Tennessee; and

Landlord will not enter into the Lease unless Guarantor guarantees the obligations of Tenant under the Lease as set forth herein; and

Guarantor derives benefits from the Lease to Tenant.

NOW THEREFORE, as a material inducement to Landlord to enter into the Lease with Tenant, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged and confessed, Guarantor does hereby, irrevocably and unconditionally, warrant and represent unto and covenant and agree with Landlord as follows:

1. Guaranty - Guarantor hereby unconditionally guarantees the full, faithful and punctual payment of all rent, additional rent and other amounts due to Landlord under the Lease by Tenant and the full, faithful and punctual performance by Tenant of all the terms, provisions and conditions of the Lease, together with interest or late charges on all of the foregoing as provided in the Lease and all other costs and expenses of collection (all of the foregoing sometimes hereinafter referred to as the "Obligations").

2. No Discharge - This Guaranty by Guarantor shall continue for the benefit of Landlord notwithstanding (a) any extension, modification, amendment or alteration of the Lease, (b) any assignment of the Lease, with or without the consent of Landlord, (c) any bankruptcy, reorganization, or insolvency of Tenant or any successor or assignee thereof, or (d) any release, extension or modification of the liability of Tenant or any other party liable under the Lease or any other guaranty of the Lease. This Guaranty shall in all respects be a continuing, absolute and unconditional guaranty of payment and performance and shall remain in full force and effect notwithstanding, without limitation, the death or incompetency of Guarantor or Tenant, or any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Guarantor or Tenant or by any defense which Tenant may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding.

3. Primarily Liable - This Guaranty is a guaranty of payment and not of collection. The liability of Guarantor under this Guaranty shall be joint and several and primary and direct and in any right of action which shall accrue to Landlord under the Lease. Landlord shall have the right, at its option, to proceed against Guarantor (or any one or more parties constituting Guarantor) without having commenced any action, or having obtained any judgment, against Tenant or any other party liable under the Lease or any other guaranty of the Lease.

4. Default - In the event of a default by Tenant under the Lease, Landlord shall have the right to enforce its rights, powers and remedies under the Lease, any other guaranty of the Lease, and under this Guaranty and all rights, powers and remedies available to Landlord shall be non-exclusive and cumulative of all other rights, powers and remedies under the Lease, any other guaranty of the Lease or under this Guaranty or by law or in equity. The obligations of Guarantor hereunder are independent of the obligations of Tenant or any other guarantor, and Landlord may proceed directly to enforce all rights under this Guaranty without proceeding against or joining Tenant, any other guarantor or any other person or entity. Until all of the Obligations have been performed and paid in full, Guarantor shall have no right of subrogation to Landlord, and Guarantor hereby waives any rights to enforce any remedy which Landlord may have against Tenant.

5. Waivers - Guarantor expressly waives and agrees not to assert or take advantage of: (a) the defense of the statute of limitations in any action hereunder or in any action for collection of the Obligations, (b) any defense that may arise by reason of the failure of the Landlord to file or enforce a claim against Guarantor

or Tenant in bankruptcy or in any other proceeding, (c) any defense based on the failure of Landlord to give notice of the creation, existence or incurring of any new obligations or on the action or non-action of any person or entity in connection with the Obligations, (d) any duty on the part of Landlord to disclose to Guarantor any facts it may know or may hereafter acquire regarding Tenant, (e) any defense based on lack of diligence on the part of Landlord in the collection of any and all of the Obligations, or (f) any demand for payment, presentment, notice of protest or dishonor, notice of acceptance of this Guaranty and any and all other notices or demands to which Guarantor might otherwise be entitled by law.

6. Subordination; Waiver of Subrogation; Preference and Fraudulent Transfer Indemnity. Any indebtedness (including, without limitation, interest obligations) of Tenant to Guarantor now or hereafter existing shall be, and such indebtedness hereby is, deferred, postponed and subordinated to the Obligations. Guarantor hereby unconditionally and irrevocably agrees that (a) Guarantor will not at any time assert against Tenant (or Tenant's estate in the event Tenant becomes bankrupt or becomes the subject of any case or proceeding under the bankruptcy laws of the United States of America) any right or claim to indemnification, reimbursement, contribution or payment for or with respect to any and all amounts Guarantor may pay or be obligated to pay Landlord, including, without limitation, any and all Obligations which Guarantor may perform, satisfy or discharge, under or with respect to this Guaranty; (b) Guarantor waives and releases all such rights and claims and any other rights and claims to indemnification, reimbursement, contribution or payment which Guarantor, or any of them, may have now or at any time against Tenant (or Tenant's estate in the event Tenant becomes bankrupt or becomes the subject of any case or proceeding under any bankruptcy laws); (c) Guarantor shall have no right of subrogation, and Guarantor waives any right to enforce any remedy which Landlord now has or may hereafter have against Tenant; (d) Guarantor waives any benefit of, and any right to participate in, any security now or hereafter held by Landlord; and (e) Guarantor waives any defense based upon an election of remedies by Landlord which destroys or otherwise impairs any subrogation rights of Guarantor or the right of Guarantor to proceed against Tenant for reimbursement. The waivers hereunder shall continue and survive after the payment and satisfaction of the Obligations, and the termination or discharge of Guarantor's obligations under this Guaranty. Guarantor further hereby unconditionally and irrevocably agrees and guarantees (on a joint and several basis) to make full and prompt payment to Landlord of any of the Obligations or other sums paid to Landlord pursuant to the Lease which Landlord is subsequently ordered or required to pay or disgorge on the grounds that such payments constituted an avoidable preference or a fraudulent transfer under applicable bankruptcy, insolvency or fraudulent transfer laws; and Guarantor shall fully and promptly indemnify Landlord for all costs (including, without limitation, attorney's fees) incurred by Landlord in defense of such claims of avoidable preference or fraudulent transfer.

7. Choice of Law - This Guaranty is to be performed in the State of Tennessee and shall be governed by and construed in accordance with the laws of the State of Tennessee, without regard to its conflicts laws or choice of law rules.

8. Time of Essence - Time is of the essence of this Guaranty.

9. Notices - Wherever any notice or other communication is required or permitted hereunder, such notice or other communication shall be in writing and shall be delivered by hand, or by nationally-recognized overnight express delivery service, by U. S. registered or certified mail, return receipt requested, postage prepaid to the addresses set out below or at such other addresses as are specified by written notice delivered in accordance herewith:

Landlord: Shelby Drive Corporation
c/o L&B Realty Advisors, Inc.
8750 N. Central Expressway
Suite 800
Dallas, Texas 75231
Attn: Ed Daley

With a copy to: Shelby Drive Corporation
c/o IDI Services Group, Inc.
3424 Peachtree Road, Suite 1500
Atlanta, Georgia 30326

Guarantor: Daisytek International Corporation
500 North Central Expressway
Plano, Texas 75074
Attn: Mark C. Layton, Chief Executive Officer

Any notice or other communication mailed as hereinabove provided shall be deemed effectively given (a) on the date of delivery, if delivered by hand; or (b) on the date mailed if sent by overnight express delivery or if sent by U.S. mail. Such notices shall be deemed received (a) on the date of delivery, if delivered by hand or overnight express delivery service; or (b) on the date indicated on the return receipt if mailed. If any notice mailed is properly addressed but returned for any reason, such notice shall be deemed to be effective notice and to be given on the date of mailing.

10. Authority - If Guarantor is not a natural person, Guarantor shall cause its corporate secretary or general partner, as applicable, to execute the

certificate attached hereto as Exhibit

A. Guarantor is authorized by all required corporate or partnership action to enter into this Guaranty and the individual(s) signing this Guaranty on behalf of Guarantor are each authorized to bind Guarantor to its terms.

11. Successors and Assigns - This Guaranty shall be binding upon and inure to the benefit of the parties hereto and their heirs, legal representatives, successors and assigns.

IN WITNESS WHEREOF, Guarantor has executed under seal and delivered this Guaranty to Landlord on the date and year above first written.

GUARANTOR:

DAISYTEK INTERNATIONAL CORPORATION,
a Delaware corporation

By: -----

Name: -----

Title: -----

Attest: -----

Name: -----

Title: -----

[CORPORATE SEAL]

EXHIBIT A

CERTIFICATE OF AUTHORITY
CORPORATION

The undersigned, Secretary of daisytek international corporation, a Delaware corporation ("Guarantor"), hereby certifies as follows to SHELBY DRIVE CORPORATION, a Florida corporation ("Landlord"), in connection with the execution of a Guaranty by Guarantor (the "Guaranty") of that certain Industrial Lease Agreement dated _____, 1999 between Landlord and Priority Fulfillment Services, Inc. ("Tenant") (the "Lease") relating to the lease of approximately 442,184 square feet, comprising all of Building I at Southpark, located in Shelby County, Tennessee (the "Premises"):

1. Guarantor is duly organized, validly existing and in good standing under the laws of the State of Delaware, and duly qualified to do business in the State of Tennessee.

2. That the following named persons, acting individually, are each authorized and empowered to negotiate and execute, on behalf of Guarantor, a Guaranty of the Lease and that the signature opposite the name of each individual is an authentic signature:

----- (name)	----- (title)	----- (signature)
----- (name)	----- (title)	----- (signature)
----- (name)	----- (title)	----- (signature)

3. That the foregoing authority was conferred upon the person(s) named above by the Board of Directors of Guarantor, at a duly convened meeting held _____, 19__.

Secretary

[CORPORATE SEAL]

LEASE CONTRACT

BETWEEN

TRANSPORTS WEERTS C/O DUIJSENS MARIE
RUE VARN, 1C
B - 3793 TEUVEN

represented by Mr. H. Levoux, Financial Director,

hereinafter "the lessor"

AND

PRIORITY FULFILLMENT SERVICES EUROPE B.V.
MARKT 28
NL - 6221 CJ MAASTRICHT

represented by Mr. Lindsley D. Medlin, Jr., Managing Director,

hereinafter "the lessee"

AFTER HAVING STATED IN ADVANCE THE FOLLOWING:

S.A. WEERTS is owner of industrial land located at B- 4460 Grace-Hollogne (Bierset), entered in the land register under section A, 2nd division, numbers 151a, 153, 150g, 137d, 136c, with a surface area of approximately 2.5 hectares.

On part of the above-mentioned land, an industrial building will be erected in accordance with the annexed building plans and technical description.

The lessor guarantees to the lessee that the rented premises will be delivered in accordance with the urban development regulations that are imposed by the authorities concerned.

THE FOLLOWING TERMS AND CONDITIONS ARE AGREED:

ARTICLE 1 - OBJECT OF THE LEASE

The lessor hereby agrees to lease to the lessee, who accepts, an industrial property, situated Cargo Village Industrial Estate, at 4460 Grace-Hollogne (Bierset). The property comprises 13,732 sq.m. of warehouse space and 75 parking spaces, as outlined in red on the annexed plans, duly initialed by both parties. This building will be constructed in accordance with the building plans, that make up part of this agreement.

ARTICLE 2 - DESTINATION

The lessee shall be entitled to use the property as a distribution center. All possible associated uses in connection with the running of a distribution center will be admitted.

By express agreement, the utilisation of the leased premises shall be of the essence in the lease.

It is expressly stipulated that the premises may not in any circumstances be used for a business or activity governed by the Commercial Leases Act of 30th April 1951.

ARTICLE 3 - DURATION OF THE LEASE

This agreement is for a term of nine years, taking effect from 25th July 1999, expiring lawfully at midnight on 24th July 2008, to be extended, if applicable, by a period corresponding to the period of late delivery of the space.

The Lessee shall however be entitled to terminate this contract ahead of term at the fifth, sixth, seventh and eighth anniversary of the lease, subject to prior notice of six months served on the Lessor by registered letter.

At the end of the lease, the continuation of occupation of the premises shall never be considered as a tacit renewal.

The Lessor agrees to make the building accessible to contractors working for the Lessee as from 25th June 1999 without rent to be due from the Lessee.

ARTICLE 4 - RENT

The lease is hereby granted and accepted for the basic annual rent of BEF 14,830,560 (fourteen million, eight hundred thirty thousand, five hundred sixty Belgian Francs).

The rent is payable monthly in advance on the first day of each month in Belgian Francs, by payment to the lessor's account, account number 197-2583002-23, or by any other way the lessor should indicate to the lessee, during the lease.

The rent, due for the period between the start of the lease and the next monthly quarter day, forms the first period and is calculated prorata temporis.

The rent due for the period preceding the expiration of the lease will be reduced, if needed, prorata temporis.

The first rent is payable and will be paid the day of the start of the lease.

ARTICLE 5 - ADJUSTMENT OF THE RENT

The parties hereto expressly agree that the above mentioned rent shall be tied to fluctuations in the health index as published monthly in the "Moniteur Belge" (Belgian Official Gazette).

The rent shall be adjusted once per year on the anniversary of the effective date of this lease, subject to written notice by the Lessor.

The adjustments of the rent are calculated by application of the following formula :

New rent : base rent x new index

initial index

The parties hereto agree that:

- - the base rent is the one mentioned in Article 4;
- - the new index shall be the health index for the month preceding the adjustment of the rent;
- - the initial index shall be the health index of the month preceding the signing of the lease.

Should the health index not be published in the "Moniteur Belge", the parties hereto shall refer to the new instrument for measurement of the cost of living instituted to replace the consumer price index.

In the absence of such system, the parties hereto shall refer to the evolution of the increases in the cost of living.

ARTICLE 6 - DELAY OF PAYMENT

All amounts due by the lessee by virtue of the present lease, will bear interest as from the tenth day after the date when they fall due, subject to prior notification by the Lessor.

Concerning this, the payment order of the bank will be determinant.

The interest will be calculated on the basis of the interest rate of the Belgian National Bank at that time, increased by 2%.

ARTICLE 7 - SUBLETTING AND ASSIGNMENT

The lessee may assign this lease or sublet all or part of the premises without the prior consent of the lessor, subject to the condition that the assignee or sublessee is of a financial standing similar or superior to the current lessee.

ARTICLE 8 - TAXES, LEVIES, CONTRIBUTIONS

All present or future taxes, levies and contributions of any kind whatsoever payable to the State, to the local or regional authority or group of authorities or to any other

authority in respect of the leased property, including withholding tax on property or other real estate taxes on property, shall be payable jointly and equally by each party.

Taxes levied on the Lessee's activity on occupation of the leased premises, including Value Added Tax, shall be payable by the Lessee.

The lessor will do everything possible to obtain an exemption from property taxation.

ARTICLE 9 - CHARGES

The subscriptions to the water-, gas- and electricity companies, the connection costs and the lease of the counters and material are due by the lessee, as well as the consumption.

ARTICLE 10 - INSURANCE

All insurance pertaining to the property and the operation thereof shall be taken out by the lessor to cover all risks, including the neighbours claims.

The lessee shall take out insurance at his own expense to cover his liability.

The lessee shall also take out an insurance at his own risk to cover all movable goods, including the partitioning, at least against fire, explosion and water damage.

ARTICLE 11 - FINISHING - FITTING OUT - TRANSFORMATION - MODIFICATION

The lessee shall have the right to install fixtures that need to be used to conduct business ; if installed by the lessee, these fixtures will be removed by the lessee upon termination of the lease and will not become the property of the lessor. The lessee shall repair and restore any damage or injury to the premises to the condition in which the demised premises existed prior to such installation.

ARTICLE 12 - SCHEDULE OF CONDITION

An ingoing schedule of condition will be drawn up no later than the first of the following dates : either at the date of start of the lease or the date of effective occupation of the leased premises by the lessee.

This description will be drawn up by the expert agreed by both parties or the experts designated by each party or, if not, by the judge of the "Justice de Paix" court of the area where the building is located, at the request of the most diligent party.

The fees will be paid half by each party. This report will form part of the present contract.

At the end of the lease, the lessee will reinstate the premises as they were received according to the ingoing schedule of condition, except for what has perished or been degraded by normal wear and tear.

An outgoing schedule of condition will be drawn up at the latest by the last day of the lease, after that the lessee has completely vacated the premises.

This schedule will be drawn up by the expert agreed by both parties or the experts designated by each party, at the latest 15 days before the end of the lease, or, if not, by the judge of the "Justice de Paix" court of the area where the building is located, at the request of the most diligent party.

The expert(s) will establish the amount of the degradation compensation. Such degradation compensation includes a compensation for non-availability of the leased premises resulting from necessary reparations of the leased premises in order to bring them back in their original state as determined in the ingoing schedule of condition, save for normal wear and tear. The compensation for the non-availability of the leased premises is determined by reference to the rent payable at then end of the lease.

The reports of the expert(s) chosen by the parties or by the judge will bind both parties, without any possible recourse.

ARTICLE 13 - USE OF THE PREMISES

The lessee engages himself to occupy the premises as a good house keeper and not exercise an activity prejudicial to the quiet and calm enjoyment of the neighbours, according to the destination of the premises, and to the reputation of the building.

The maximum loading capacity of the floor is 5.000 kg/sq.m. for the warehouse zones and 300 kg/m(2) for the office zones, partitioning included.

It is forbidden for the lessee to organize public sales in the building, for any reason.

After the ingoing schedule of condition, the lessee can proceed with the installation of telephone, radio, television, and other technical machines inside the leased premises without the prior approval of the lessor. The installation and the use of these machines are under the responsibility of the lessee and paid by him.

The lessee declares that his activity is not an unhealthy or dangerous activity and that he is owner of all the permissions to carry them out.

The lessee's use of tractor trailers, forklifts, conveyors and other equipment normally used by the lessee shall not be deemed to violate the lease.

ARTICLE 14 - MAINTENANCE AND REPAIRS

Parties refer to articles 1720 and 1754 till 1756 of the Belgian Civil Code, in order to govern the issue of maintenance and repairs.

The lessee hereby undertakes to occupy the leased premises in a reasonable manner and to maintain them in a reasonable state of repair.

The lessee will among others be responsible for the maintenance of the gardens, the green areas and the driveways.

At his expense, the lessor will among others be responsible to maintain in good condition and repair the roof, foundation (below floor slab), and structural frame of the building.

The lessor is responsible for the maintenance and surveillance of the materials for fire safety.

The lessor will carry out, as quickly as possible, all repair work or improvements which may become necessary during the period of the lease, so as to cause minimum disturbance to the lessee.

The lessor shall maintain at its sole cost and expense the plumbing, electrical utilities and sewer outside the outside walls of the premises, from said walls to the point that such lines are maintained by governmental entities or the provider of such utility.

The lessee must permit access to the leased premises to the lessor or his representatives, architects, contractors, workmen or any other person designated by the lessor, in order to verify the state of the leased premises and the building in general, the respect of the

articles of this lease and to proceed to the necessary inspections and repairs, by means of a notice of 48 hours, except in an emergency.

ARTICLE 15 - ADVERTISING AND VISITING RIGHTS

For the last six months before the expiry of the lease term, the lessee shall be bound to allow bills announcing the sale or rental to be posted (insofar as they do not adversely affect the normal utilization of the leased premises). Visits to the leased premises by prospective buyers will be subject to the prior approval of the lessee (to be able to control access by any of the lessee's competitors). The prospective buyers must be accompanied by a representative of the lessor, and no visits shall be allowed outside the opening hours of the building.

ARTICLE 16

The lessee hereby declares that he elects domicile in the leased premises. This election of domicile shall remain effective after expiry of the lease, unless the lessee informs the lessor by registered letter of a new elected domicile.

ARTICLE 17 - REGISTRATION

All such costs and fees of any kind whatsoever as might arise out of the execution of this contract, the registration fees, stamp costs and fines in the event of late registration or failure to register, shall be payable by the lessee.

All charges not quantified herein are evaluated for taxation purposes at 10% of the rent.

ARTICLE 18 - DATE OF NOTIFICATION

All notifications done by registered letter in execution of the present contract are supposed to be done at the date of presentation of the registered letter to the post office, the date of the receipt serving as a proof.

ARTICLE 19 - SIGNAGE

External signage can be placed by the lessee without prior and written agreement of the lessor.

At the end of the lease, the lessee is obliged to dismantle the advertising and to put back the premises in their original state.

ARTICLE 20 - LITIGATIONS

All disputes arising out this contract, its interpretation, its execution, its avoidance or its resolution are subject to the jurisdiction of the "Justice de Paix" court of the area in which the leased premises are located.

In the event a judgement is delivered against the lessor and in favour of the lessee, and provided that such judgement is no longer subject to appeal, nor opposition, the lessee will be entitled to reduce the rent due to the lessor to the extent that the above judgement found in favour of the lessee.

ARTICLE 21 - SPECIAL TERMS AND CONDITIONS

- - The lessor warrants to be and to remain during the entire course of this agreement, the owner of the land located at B-4460 Grace-Hollogne (Bierset), entered in the land register under section A, 2nd division, numbers 151a, 153, 150g, 137d, 136c, with a total surface area of approx. 2.5 hectares (see attachement).

On part of the above land, an industrial building will be erected, which will entirely belong to, and will remain to belong to, the lessor during the entire course of this agreement. The lessor will therefore, among others, refrain from selling, trading or contributing in kind the above land. The building will be erected in accordance with the annexed plans and technical description.

The lessor guarantees to the lessee that the rented premises will be delivered in accordance with the urban development regulations that are imposed by the authorities concerned.

- - Construction works shall be performed at the expense of, and under the sole responsibility of, the lessor. The lessor will obtain the administrative consents required and will comply with any regulations. The lessor will guarantee the lessee

against all and any redress of third parties, due to these works.

- - Without prejudice to the lessee to claim additional damages, a liquidated damages penalty for non-performance amounting to \$ 20,000- US per calendar day will be due by the Lessor if the building is not completed within the projected time frame of four months after the signing of the lease.
- - The Lessor grants to the lessee an option to lease an additional and similar warehouse, that the lessor would be obliged to construct as an attachment to the initial building. This option expires one year from the occupation of the initial building and to exercise this option, notice must be given by registered mail to the Lessor.

In the event that the option is exercised, the additional building will be let on the following conditions :

- the basic rent will be the rent which is mentioned in Article 4;
- the additional warehouse will be similar to the initial warehouse and will be equipped with 25 loading docks and 1 loading door;
- the additional building will be delivered within 1 month of the exercising of the option or at a later date if specified by the lessee;
- the other stipulations of this lease will also be applicable to the letting of the additional building;

The land required for the additional building is optioned by the Lessor.

- - The points outstanding will be agreed between the parties in due course.
- - A French version of this contract will be drawn up for registration purposes within two weeks of the signing of this document.

Executed at Maastricht, on 25th March 1999, in duplicate.

Each of the parties hereto acknowledges that he is in possession of his copy.

THE LESSOR

THE LESSEE

SUBSIDIARIES OF PFSWEB, INC.

Upon completion of this offering, the subsidiaries of PFSweb, Inc. will be Priority Fulfillment Services, Inc., a Delaware corporation, Priority Fulfillment Services Europe, B.V., a Netherlands corporation, Priority Fulfillment Services Canada, Inc., a Canadian corporation, and PFS - Texas, L.L.C., a Delaware limited liability company.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Dallas, Texas,
September 23, 1999

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED FINANCIAL STATEMENTS OF PFSWEB, INC. AS OF AND FOR THE THREE MONTHS ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	MAR-31-2000	APR-01-1999	JUN-30-1999
			2,408
			0
		23,367	
		638	
		24,568	
	50,971		5,098
		516	
	67,967		
	30,152		0
	0		0
			0
			466
67,967			35,811
	35,811		33,024
		33,024	
		2,783	
		5	
		326	
		(327)	
		(129)	
(198)		0	
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