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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2003

OR

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

For the Transition Period from _______ to _______

Commission File Number 000-28275

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

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

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

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

Yes X No

At November 11, 2003 there were 20,971,317 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

PFSWEB, INC. AND SUBSIDIARIES
FORM 10-Q
SEPTEMBER 30, 2003

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PFSWEB, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,350	$ 8,595
Restricted cash	1,429	1,016
Accounts receivable, net of allowance for doubtful accounts of $633 and $411 at September 30, 2003 and December 31, 2002, respectively	31,616	29,961
Inventories, net	37,877	46,291
Other receivables	4,048	3,417
Prepaid expenses and other current assets	3,163	2,888
Total current assets	89,483	92,168
PROPERTY AND EQUIPMENT, net	9,732	11,695
RESTRICTED CASH	876	2,878
OTHER ASSETS	171	285
Total assets	$ 100,262	$ 107,026
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 51,305	$ 60,863
Trade accounts payable	11,968	7,317
Accrued expenses	7,799	7,862
Total current liabilities	71,072	76,042
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	2,544	3,094
OTHER LIABILITIES	1,132	1,420
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued and outstanding	--	--
Common stock, $0.001 par value; 40,000,000 shares authorized; 19,178,459 and 18,397,983 shares issued at September 30, 2003 and December 31, 2002, respectively; and 19,092,159 and 18,311,683 outstanding at September 30, 2003 and December 31, 2002, respectively	19	18
Additional paid-in capital	52,673	52,094
Accumulated deficit	(28,005)	(25,557)
Accumulated other comprehensive income	912	--
Treasury stock at cost, 86,300 shares at September 30, 2003 and December 31, 2002	(85)	(85)
Total shareholders' equity	25,514	26,470
Total liabilities and shareholders' equity	$ 100,262	$ 107,026

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

PFSWEB, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
REVENUES:				
Product revenue, net	$ 60,300	$ --	$ 183,156	$ --
Gross service fee revenue	8,918	8,583	27,445	26,289
Gross service fee revenue, affiliate	--	1,722	--	4,862
Total gross service fee revenue	8,918	10,305	27,445	31,151
Less pass-through charges	858	783	2,296	2,973
Net service fee revenues	8,060	9,522	25,149	28,178
Total net revenues	68,360	9,522	208,305	28,178
COSTS OF REVENUES:				
Cost of product revenue	56,988	--	172,980	--
Cost of net service fee revenue	5,691	5,797	17,018	17,552
Total costs of revenues	62,679	5,797	189,998	17,552
Gross profit	5,681	3,725	18,307	10,626
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,275	6,669	18,830	20,636
SEVERENCE AND OTHER TERMINATION COSTS	--	1,248	--	1,248
ASSET IMPAIRMENTS	--	922	--	922
Loss from operations	(594)	(5,114)	(523)	(12,180)
EQUITY IN EARNINGS OF AFFILIATE	--	265	--	1,163
INTEREST EXPENSE	489	114	1,685	264
INTEREST INCOME	(14)	(269)	(96)	(952)
Loss before income taxes	(1,069)	(4,694)	(2,112)	(10,329)
INCOME TAX PROVISION	72	--	336	--
NET LOSS	$ (1,141)	$ (4,694)	$ (2,448)	$ (10,329)
NET LOSS PER SHARE: Basic and diluted	$ (0.06)	$ (0.26)	$ (0.13)	$ (0.57)
WEIGHTED AVERAGE NUMBER OF SHARES				

OUTSTANDING: Basic and diluted .... 18,761 18,268 18,537 18,201 ========= ========= ========= =========

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

PFSWEB, INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,448)	$(10,329)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,497	4,607
Asset impairments	--	922
Provision for doubtful accounts	387	(29)
Provision for excess and obsolete inventory	1,412	--
Deferred income taxes	(78)	--
Equity in earnings of affiliate	--	(1,163)
Non-cash compensation expense	6	28
Changes in operating assets and liabilities:		
Accounts receivables	(1,094)	26
Inventories, net	8,528	--
Prepaid expenses, other receivables and other current assets	(459)	1,227
Accounts payable, accrued expenses and deferred income	3,948	1,720
Net cash provided by (used in) operating activities	13,699	(2,991)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,002)	(1,485)
Decrease (increase) in restricted cash	1,700	(154)
Proceeds from loans to affiliate, net	--	2,855
Net cash provided by investing activities	698	1,216
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(672)	(845)
Decrease in restricted cash	(29)	--
Proceeds from issuance of common stock	573	113
Proceeds from (payments on) debt, net	(11,352)	325
Net cash used in financing activities	(11,480)	(407)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(162)	124
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,755	(2,058)
CASH AND CASH EQUIVALENTS, beginning of period	8,595	10,669
CASH AND CASH EQUIVALENTS, end of period	$ 11,350	$ 8,611
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Fixed assets acquired under capital leases	$ 204	$ 779

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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION

PFSWEB OVERVIEW

PFSweb, Inc. and its subsidiaries are collectively referred to as the "Company," while the term "PFSweb" refers to PFSweb, Inc. and its subsidiaries excluding Business Supplies Distributors Holdings, LLC and its subsidiaries.

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

SUPPLIES DISTRIBUTORS OVERVIEW

Business Supplies Distributors Holdings, LLC ("Holdings") and its subsidiaries (collectively "Supplies Distributors") are master distributors of various products, primarily International Business Machines ("IBM") products. Pursuant to transaction management services agreements between PFSweb and Supplies Distributors, PFSweb provides to Supplies Distributors such services as managed web hosting and maintenance, procurement support, web-enabled customer contact center services, customer relationship management, financial services including billing and collection services, information management, and international distribution services. Additionally, IBM and Supplies Distributors have outsourced to Global Marketing Services, Inc. ("GMS") the product demand generation function for the IBM products distributed by Supplies Distributors. Supplies Distributors, via its arrangements with GMS and PFSweb, sells its products in the United States, Canada and Europe.

All of the agreements between PFSweb and Supplies Distributors were made in the context of a related party relationship and were negotiated in the overall context of PFSweb's and Supplies Distributors' prior arrangement with IBM. Although management generally believes that the terms of these agreements are consistent with fair market values, there can be no assurance that the prices charged to or by each company under these arrangements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

BASIS OF PRESENTATION

For the period from July 2001 to September 2002, PFSweb owned 49% of Supplies Distributors and as such the results of Supplies Distributors were not consolidated into the Company's results. The Company's equity interest in Supplies Distributors was presented in the consolidated balance sheet as investment in affiliate prior to October 2002 and the Company's allocation of Supplies Distributors' net income was presented in the consolidated statement of operations as equity in earnings of affiliate for the period from inception (July 2001) to September 2002, including the three and nine months ended September 30, 2002. Effective October 1, 2002, PFSweb purchased the remaining 51% interest in Supplies Distributors from Inventory Financing Partners, LLC ("IFP"). As a result of the purchase, effective October 1, 2002, the Company began consolidating 100% of Supplies Distributors' financial position and results of operations into the Company's consolidated financial statements. The following table presents selected pro forma information of the Company, for comparative purposes, assuming the acquisition had occurred on January 1, 2002:

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2002
Net revenues	$	

65,443 $
187,098
=============
=============
Net loss
....
$ (4,489) $
(9,684)
=============
=============
Loss per
share .....
$ (0.25) $
(0.53)
=============
=============

The pro forma data for the nine months ended September 30, 2002 includes a $0.2 million extraordinary gain on the purchase from IFP, primarily as a result of the purchase price being less than IFP's capital account. The unaudited pro forma net revenue and pro forma net loss are not necessarily indicative of the consolidated results of operations for future periods or the results of operations that would have been realized had Supplies Distributors been consolidated during the period noted.

The unaudited interim condensed consolidated financial statements as of September 30, 2003, and for the three and nine months ended September 30, 2003 and 2002, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of September 30, 2003, its results of operations for the three and nine months ended September 30, 2003 and 2002 and its results of cash flows for the nine months ended September 30, 2003 and 2002. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data has been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income (loss) or shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

All intercompany accounts and transactions have been eliminated in consolidation. Accounts and transactions between PFSweb and Supplies Distributors have been eliminated as of September 30, 2003 and December 31, 2002 and for the three and nine months ended September 30, 2003.

INVESTMENT IN AFFILIATE

In July 2001, PFSweb purchased a 49% equity interest in Supplies Distributors. Effective October 1, 2002, PFSweb purchased the remaining 51% equity interest of Supplies Distributors. Prior to consolidating Supplies Distributors' financial position and results of operations, PFSweb recorded its interest in Supplies Distributors' net income, which was allocated and distributed to the owners pursuant to the terms of Supplies Distributors' operating agreement, under the modified equity method, which resulted in PFSweb recording its allocated earnings of Supplies Distributors or 100% of Supplies Distributors' losses.

In addition to the equity investment, PFSweb loaned Supplies Distributors funds in the form of a Subordinated Demand Note (the "Subordinated Demand Note"). Under certain new and amended terms of its senior debt facilities, the outstanding balance of the Subordinated Demand Note cannot be increased or decreased without prior approval of the Company's lenders. As of September 30, 2003 and December 31, 2002, the outstanding balance of the Subordinated Demand Note was $8.0 million.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. 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. These estimates include allowances for the collectibility of accounts and other receivables, the recoverability of inventory and liabilities for incurred but not reported healthcare claims. The recognition and allocation of certain operating expenses, restructuring costs and the determination of costs applicable to client terminations in these consolidated financial statements also required management estimates and assumptions.

REVENUE AND COST RECOGNITION

The Company recognizes product revenue and product cost upon shipment of product to customers. The Company permits its customers to return defective products (that the Company then returns to the manufacturer) and incorrect shipments for credit against other purchases and provides a reserve for estimated returns and allowances. The Company offers terms to its customers that it believes are standard for its industry.

Freight costs billed to customers are reflected as components of product revenues. Freight costs incurred by the Company are recorded as a component of cost of goods sold.

Under the Master Distributor Agreements, the Company bills IBM for reimbursements of certain expenses, including: pass through customer marketing programs, including rebates and coop funds; certain freight costs; direct costs incurred in passing on any price decreases offered by IBM to Supplies Distributors or its customers to cover price protection and certain special bids; the cost of products provided to replace defective product returned by customers; and certain other expenses as defined. The Company records a receivable for these reimbursable amounts as they are incurred with a corresponding reduction in either inventory or cost of product revenue. The Company also reflects pass through customer marketing programs as a reduction of product revenue.

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

Distribution services relate primarily to inventory management, product receiving, warehousing and fulfillment (i.e., picking, packing and shipping). Service fee revenue for these activities is recognized as earned, which is either (i) on a per transaction basis or (ii) at the time of product fulfillment, which occurs at the completion of the distribution services.

Order management/customer care services relate primarily to taking customer orders for the Company's client's products via various channels such as telephone call-center, electronic or facsimile. These services also entail addressing customer questions related to orders, as well as cross-selling/up-selling activities. Service fee revenue for this activity is recognized as the services are rendered. Fees charged to the client are on a per transaction basis based on either (i) a pre-determined fee per order or fee per telephone minutes incurred, or (ii) are included in the product fulfillment service fees that are recognized on product shipment.

The Company's billings for reimbursement of out-of-pocket expenses, such as travel, and certain third-party vendor expenses such as shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

The Company's cost of service fee revenue, representing the cost to provide the services described above, is recognized as incurred. Cost of service fee revenue also includes costs associated with technology collaboration and ongoing technology support that consist of creative internet application development and maintenance, web hosting, technology interfacing, and other ongoing programming activities. These activities are primarily performed to support the distribution and order management/customer care services and are recognized as incurred.

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

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

The Company primarily performs its services under one to three year contracts that can be terminated by either party. In conjunction with these long-term contracts the Company generally receives start-up fees to cover its implementation costs, including certain technology infrastructure and development costs. The Company defers the fees received, and the related costs, and amortizes them over the life of the contract. The amortization of deferred revenue is included as a component of service fee revenue. The amortization of deferred implementation costs is included as a cost of service fee revenue. To the extent implementation costs, excluding certain technology infrastructure and development costs, exceed the fees received, excess costs are expensed as incurred.

Current and non-current deferred implementation costs are a component of prepaid expenses and other assets, respectively. Implementation costs associated with technology infrastructure and development costs are a component of property and equipment. Current and non-current deferred implementation revenues are a component of accrued expenses and other liabilities, respectively.

CONCENTRATION OF BUSINESS AND CREDIT RISK

The Company's product revenue was primarily generated by sales of product purchased under master distributor agreements with one supplier. Sales to three customers accounted for approximately 13%, 11% and 10% of the Company's total product revenues for the nine months ended September 30, 2003. Service fee revenue from two clients accounted for approximately 40% and 16% of net service fee revenue for the nine months ended September 30, 2003. On a consolidated basis, two customers/clients accounted for approximately 16% and 10% of the Company's total revenues for the nine months ended September 30, 2003. As of September 30, 2003, three customers/clients accounted for approximately 51% of accounts receivable. As of December 31, 2002, three customers/clients accounted for approximately 39% of accounts receivable.

In conjunction with Supplies Distributors' financing, PFSweb has provided certain collaterized guarantees on behalf of Supplies Distributors. Supplies Distributors' ability to obtain financing on similar terms would be significantly impacted without these guarantees. Additionally, since Supplies Distributors has limited personnel and physical resources, its ability to conduct business could be materially impacted by contract terminations by GMS.

The Company has multiple arrangements with IBM and is dependent upon the continuation of such arrangements. These arrangements, which are critical to the Company's ongoing operations, include Supplies Distributors' master distributor agreements, Supplies Distributors' working capital financing agreements, product sales to IBM business units, a general contractor relationship through the Company's largest client, and a term master lease agreement.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

Inventories (merchandise, held for resale, all of which are finished goods) are stated at the lower of weighted average cost or market. Supplies Distributors assumes responsibility for slow-moving inventory under certain master distributor agreements, subject to certain termination rights, but has the right to return product rendered obsolete by engineering changes, as defined. The Company reviews inventory for impairment on a periodic basis, but at a minimum, annually. Recoverability of the inventory on hand is measured by comparison of the carrying value of the inventory to the fair value of the inventory. During the three months ended September 30, 2003, the Company agreed to certain modifications to a selected master distributor agreement. As a result of these modifications, the Company reevaluated its inventory for impairment as of September 30, 2003. Based on such review, the Company increased its allowance for slow moving inventory from $0.2 million as of June 30, 2003, ($0.1 million at December 31, 2002) to $1.6 million as of September 30, 2003.

In the event the Company, Supplies Distributors and IBM do not renew their Master Distributor Agreements, the parties shall mutually agree on a plan of disposition of Supplies Distributors' then existing inventory.

Inventories include merchandise in-transit that has not been received by the Company but that has been shipped and invoiced by Supplies Distributors' vendors. The corresponding payable for inventories in-transit is included in debt in the accompanying consolidated financial statements.

PROPERTY AND EQUIPMENT

The Company's property held under capital leases amounted to approximately $3.5 million and $4.3 million, net of accumulated amortization of approximately $4.8 million and $3.5 million, at September 30, 2003 and December 31, 2002, respectively.

STOCK BASED COMPENSATION

The Company accounts for stock options using the intrinsic-value method as outlined under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25") and related interpretations, including FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25, issued in March 2000. Under this method, compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. The exercise prices of all options granted during the three and nine months ended September 30, 2003 and 2002 were equal to the market price of the Company's common stock at the date of grant. As such, no compensation cost was recognized during those periods for stock options granted to employees. The following table shows the pro forma effect on the Company's net loss and loss per share as if compensation cost had been recognized for stock options based on their fair value at the date of the grant. The pro forma effect of stock options on the Company's net loss for those periods may not be representative of the pro forma effect for future periods due to the impact of vesting and potential future awards.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Net loss as reported	$ (1,141)	$ (4,694)	$ (2,448)	$(10,329)
Add: Stock-based non-employee compensation expense included in reported net loss	--	--	6	28
Deduct: Total stock-based employee and non-employee compensation expense determined under fair value based method	(107)	(262)	(418)	(1,578)
Pro forma net loss, applicable to common stock for basic and diluted computations	$ (1,248)	$ (4,956)	$ (2,860)	$(11,879)
Loss per common share - as reported Basic and diluted	$ (0.06)	$ (0.26)	$ (0.13)	$ (0.57)
Loss per common share - pro forma Basic and diluted	$ (0.07)	$ (0.27)	$ (0.15)	$ (0.65)

During the nine months ended September 30, 2003, the Company issued an aggregate of 831,000 options to purchase shares of common stock to officers, directors, employees and consultants of PFSweb.

3. RECENTLY ISSUED ACCOUNTING PRINCIPLES

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The adoption of this standard did not have a material impact on the consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the provisions of SFAS 123 to require more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results of operations. The Company adopted the disclosure requirements of SFAS 148 as of December 31, 2002.

In January 2003, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others." FIN No. 45 requires a company to recognize a liability for the obligations it has undertaken in issuing a guarantee. This liability would be recorded at the inception of a guarantee and would be measured at fair value. The measurement provisions of this statement apply prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions of the statement apply to financial statements for periods ending after December 15, 2002. The Company adopted the disclosure provisions of the statement as of December 31, 2002 and the measurement provisions of this statement during the three months ended March 31, 2003. The adoption of this statement did not have a material effect on the consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. The Company adopted the provisions of FIN No. 46 during the three months ended March 31, 2003. The adoption of the statement did not have a material effect on the consolidated financial statements.

The FASB Emerging Issues Task Force issued EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," to address certain revenue recognition issues. The guidance provided from EITF 00-21 addresses both the timing and classification in accounting for different earnings processes. The adoption of EITF 00-21 did not have a material impact on the consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and classifies them in its statements of financial position. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) when that financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, and the adoption of SFAS 150 did not have a material impact on the consolidated financial statements.

4. COMPREHENSIVE LOSS (IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
Net loss	$ (1,141)	$ (4,694)	$ (2,448)	$(10,329)
Other comprehensive income (loss):				
Foreign currency translation adjustment	104	(186)	912	680
Comprehensive loss	$ (1,037)	$ (4,880)	$ (1,536)	$ (9,649)

5. NET LOSS PER COMMON SHARE AND COMMON SHARE EQUIVALENT

Basic and diluted net loss per common share attributable to the Company's common stock were determined based on dividing the net loss available to common stockholders by the weighted-average number of common shares outstanding. For the three and nine months ended September 30, 2003 and 2002, all outstanding options to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. As of September 30, 2003 and 2002 there were 4,668,292 and 4,953,814 options outstanding, respectively. There are no other potentially dilutive securities outstanding.

6. DEBT AND CAPITAL LEASE OBLIGATIONS:

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

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Term master lease agreement	$ 3,847	$ 4,627
Inventory and working capital financing agreements:		
United States	22,170	28,147
Europe	10,386	15,219
Loan and security agreements:		
Supplies Distributors	12,804	12,552
PFSweb	1,289	--
Factoring agreement, Europe	3,123	3,202
Other	230	210
Total	53,849	63,957
Less current portion of long-term debt	51,305	60,863
Long-term debt, less current portion	$ 2,544	$ 3,094

INVENTORY AND WORKING CAPITAL FINANCING AGREEMENT, UNITED STATES - SUPPLIES DISTRIBUTORS

On September 27, 2001, Supplies Distributors entered into a short-term credit facility with IBM Credit LLC (formerly IBM Credit Corporation) to finance its distribution of IBM products in the United States, which has subsequently been amended. The amended asset based credit facility provides financing for eligible IBM inventory and for certain other receivables up to $27.5 million ($30.5 million at December 31, 2002) through its expiration on March 29, 2004. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, cash flow from operations, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Demand Note receivable balance from Supplies Distributors of $8.0 million and a minimum shareholders' equity, as defined, of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 1%. The facility accrues a quarterly commitment fee of 0.375% on the unused portion of the commitment, and a monthly service fee.

INVENTORY AND WORKING CAPITAL FINANCING AGREEMENT, EUROPE - SUPPLIES DISTRIBUTORS

On September 27, 2001, Supplies Distributors S.A. ("SDSA"), a Belgium corporation and wholly-owned subsidiary of Supplies Distributors, entered into a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance its distribution of IBM products in Europe, which has subsequently been amended. The amended asset based credit facility with IBM Belgium provides up to 12.5 million Euros (approximately $14.1 million) (19.0 million euros, or approximately $21.4 million at December 31, 2002) in financing for eligible IBM inventory and for certain other receivables. The IBM Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2004. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, cash flow from operations and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Demand Note receivable balance from Supplies Distributors of $8.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at Euribor plus 4%. SDSA pays a monthly service fee on the commitment.

LOAN AND SECURITY AGREEMENT - SUPPLIES DISTRIBUTORS

On March 29, 2002, Supplies Distributors entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to $25 million of eligible accounts receivable in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. This agreement contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a Subordinated Demand Note to Supplies Distributors of no less than $6.5 million and restricted cash of less than $5.0 million, and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors entered into Blocked Account Agreements with its banks and Congress whereby a security interest was granted to Congress for all customer remittances received in specified bank accounts.

LOAN AND SECURITY AGREEMENT - PFSWEB

On March 28, 2003, Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc., (both wholly-owned subsidiaries of PFSweb and collectively the "Borrowers") entered into a two year Loan and Security Agreement with Comerica Bank ("Comerica") to provide financing for up to $7.5 million of eligible accounts receivable in the U.S. and Canada. Borrowings under the Comerica facility accrue interest at prime rate plus 1%. The agreement contains cross default provisions, various restrictions upon the Borrowers' ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth, as defined, of $19.0 million and a minimum liquidity ratio, as defined. The agreement restricts the amount of the Subordinated Demand Note to a maximum of $8.0 million. The agreement is secured by all of the assets of the Borrowers, as well as a guarantee of PFSweb. On September 11, 2003, the Borrowers and Comerica amended this agreement to provide for up to $5.0 million of eligible accounts receivable financing and up to

$2.5 million of eligible equipment purchases ("Equipment Advances"). Outstanding Equipment Advances under the amended Comerica facility accrue interest at prime rate plus 1.5% and have a final maturity date of September 10, 2006. The amendment requires the Borrowers to maintain a minimum cash balance of $1.25 million at Comerica.

FACTORING AGREEMENT - SUPPLIES DISTRIBUTORS

On March 29, 2002, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million euros (approximately $8.4 million) (originally 10 million euros, amended in October 2002) of eligible accounts receivables, which has subsequently been amended. Borrowings under this agreement can be either cash advances or straight loans, as defined. Cash advances accrue interest at 7.9%, or on an adjusted basis as defined, and straight loans accrue interest at Euribor plus 1.4% for the agreement's first year and Euribor plus 1.3% for the agreement's second year. This agreement contains various restrictions upon the ability of SDSA to, among other things, merge, consolidate, incur indebtedness, as well as financial covenants, such as minimum net worth. This agreement is secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

DEBT COVENANTS

To the extent PFSweb or Supplies Distributors fail to comply with their covenants, including the monthly financial covenant requirements and required minimum level of consolidated shareholders' equity ($19.0 million), as defined, and the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. At September 30, 2003, PFSweb and Supplies Distributors were in compliance with all debt covenants.

PFSweb has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

7. SUPPLIES DISTRIBUTORS AND OTHER RELATED PARTIES

SUPPLIES DISTRIBUTORS

In September 2001, PFSweb made an equity investment of $0.75 million in Supplies Distributors, for a 49% voting interest, and IFP made an equity investment of $0.25 million in Supplies Distributors for a 51% voting interest. Certain officers and directors of PFSweb owned, individually, a 9.8% non-voting interest, and, collectively, a 49% non-voting interest, in IFP. Effective October 1, 2002, PFSweb purchased the remaining 51% interest in Supplies Distributors from IFP for $0.3 million.

Pursuant to the terms of PFSweb's transaction management services agreement with Supplies Distributors, PFSweb earned service fees, which, prior to the consolidation effective October 1, 2002, are reported as service fee revenue, affiliate in the accompanying consolidated financial statements, of approximately $1.7 million and $4.7 million for the three and nine months, respectively, ended September 30, 2002.

Pursuant to Supplies Distributors' operating agreement, prior to the October 1, 2002 acquisition date, Supplies Distributors allocated its earning and distributed its cash flow, as defined, in the following order of priority: first, to IFP until it received a one-time amount equal to its capital contribution of $0.25 million; second, to IFP until it received an amount equal to a 35% cumulative annual return on its capital contribution; third, to PFSweb until it received a one-time amount equal to its capital contribution of $0.75 million; fourth, to PFSweb until it received an amount equal to a 35% cumulative annual return on its capital contribution; and fifth, to PFSweb and IFP, pro rata, in accordance with their respective capital accounts. PFSweb recorded $0.3 million and $1.2 million of equity in the earnings of Supplies Distributors, prior to the October 1, 2002 acquisition, for the three and nine months ended September 30, 2002, respectively. As a result of PFSweb's 100% ownership of Supplies Distributors, future earnings and dividends will be allocated and paid 100% to PFSweb. Under the terms of its amended credit agreements, Supplies Distributors is currently restricted from paying annual cash dividends without the prior approval of its lenders. In March 2003, Supplies Distributors received lender approval for a distribution to PFSweb of $600,000, which was paid in September 2003.

OTHER RELATED PARTIES

In August 2001, Supplies Distributors entered into an Agreement for Sales Forces Services ("ASFS") with IBM, whereby Supplies Distributors is to actively generate demand for and promote brand loyalty for IBM products. The ASFS expires on the earlier of December 31, 2003 or the termination of the Master Distributor Agreements. The ASFS automatically renews for successive one-year periods unless either party provides prior written notice. Pursuant to the ASFS, IBM pays to Supplies Distributors a quarterly service fee as agreed to by both parties. Supplies Distributors has subcontracted with GMS to provide the sales force activities required under the ASFS for an amount equal to the fees received by Supplies Distributors from IBM under the ASFS. The principal officer of GMS owned 46% of IFP, prior to PFSweb's purchase of IFP's interest in Supplies Distributors.

8. RESTRUCTURING

In September 2002, the Company implemented a restructuring plan that resulted in the termination of approximately 60 employees, of which 20 were hourly employees. The Company recorded $1.2 million for severance and other termination costs, of which $0.8 million was paid during the year ended December 31, 2002, and $0.1 million and $0.3 million were paid during the three and nine months ended September 30, 2003, respectively. The remaining $0.1 million at September 30, 2003 is included in accrued expenses and is expected to be paid by March 2004. The Company did not finalize all restructuring activities as of December 31, 2002, and expects to incur an additional amount totaling $0.5 million to $1.0 million of restructuring charges during next twelve months.

9. COMMITMENTS AND CONTINGENCIES

On August 12, 2003, we received a NASDAQ Listing Qualifications Panel Notification that PFSweb has evidenced compliance with all NASDAQ SmallCap Market listing requirements. Accordingly, our stock will continue to be traded on The NASDAQ SmallCap Market. The Panel has closed our hearing file, and PFSweb's common stock will not be subject to delisting.

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.

10. SEGMENT INFORMATION

The Company is organized into two operating segments: PFSweb is an international provider of integrated business process outsourcing solutions and operates as a service fee business; Supplies Distributors is a master distributor of primarily IBM products, and recognizes revenues and costs when product is shipped.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
Revenues (in thousands):				
PFS	$ 10,079	$ 9,522	$ 31,137	$ 28,178
Supplies Distributors	60,300	--	183,156	--
Eliminations	(2,019)	--	(5,988)	--
	$ 68,360	$ 9,522	$ 208,305	$ 28,178

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
Long-lived assets (in thousands):		
PFS	$ 9,732	$11,710
Supplies Distributors	14	35
	$ 9,746	$11,745

11. SUBSEQUENT EVENT

On November 7, 2003, the Company entered into a Securities Purchase Agreement (the "Agreement") with certain institutional investors in a private placement transaction pursuant to which the Company issued and sold an aggregate of 1,581,944 shares of its common stock, par value $.001 per share (the "Common Stock"), at $2.16 per share, resulting in gross proceeds of $3.4 million. After deducting expenses, the net proceeds are approximately $3.2 million. In addition to the Common Stock, the investors received one-year warrants to purchase an aggregate 525,692 shares of Common Stock at an exercise price of $3.25 per share and four-year warrants to purchase an aggregate of 395,486 shares of Common Stock at an exercise price of $3.30 per share (collectively with the one year warrants, the "Warrants").

The securities issued in the private placement have not been registered under the Securities Act of 1933 or any state securities laws and unless so registered may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933 and applicable state securities laws. The Company has agreed to file a registration statement within 30 days for the resale of the shares of the Common Stock, including all shares of Common Stock underlying the Warrants, and to use its reasonable efforts to have the registration statement declared effective by the Securities and Exchange Commission within 90 days of the closing. The Company will be required to pay a monthly penalty to the investors equal to 1% of the aggregate proceeds paid by the investors to the Company, pro rated for each day after the 90th day that the registration statement has not been declared effective and under certain other circumstances described in the Agreement.

The Company intends to use the net proceeds from the private placement for general working capital purposes.

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

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

FORWARD-LOOKING INFORMATION

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2002, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract new clients;
- our reliance on the fees generated by the transaction volume or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with IBM;
- our client mix and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- 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;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer concentration of our business;
- the unknown effects of possible system failures and rapid changes in technology;
- trends in government regulation both foreign and domestic;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation involving our e-commerce intellectual property rights;
- our dependency on key personnel;
- our ability to raise additional capital or obtain additional financing;
- our relationship with and our guarantees of the working capital indebtedness of our subsidiary, Supplies Distributors;
- our ability or the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants; and
- our ability to comply with our obligations under our recently completed

private placement transaction and whether warrants sold in the private placement will be exercised in the future.

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

OVERVIEW

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

Our service fee revenue is typically charged on a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors. 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 passed on to our clients (and, in many cases, our clients' customers). Our billings for reimbursements of these and other `out-of-pocket' expenses, such as travel, shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

For the periods subsequent to October 1, 2002 and currently, our services include purchasing and reselling client product inventory under our master distributor agreements with IBM and certain other clients. In these arrangements, our product revenue is recognized at the time product is shipped. Product revenue includes freight costs billed to customers and is reduced for pass through customer marketing programs. For the period from January 1, 2002, to September 30, 2002, these IBM and other agreements were structured to provide transaction management services only on a service fee basis based on a percentage of shipped revenue.

Our expenses are comprised of:

- subsequent to October 1, 2002 and currently, cost of product revenue, which consists of the price of product sold and freight costs and is reduced by certain reimbursable expenses such as pass through customer marketing programs, direct costs incurred in passing on any price decreases offered by IBM to Supplies Distributors customers to cover price protection and certain special bids, the cost of products provided to replace defective product returned by customers and certain other expenses as defined under the master distributor agreements;

- cost of service fee revenue, which consists primarily of compensation and related expenses for our Web-enabled customer contact center services, international fulfillment and distribution services and professional consulting services, and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses; and

- 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, for the periods subsequent to October 1, 2002 and currently, certain direct contract costs related to our IBM and other master distributor agreements are reflected as selling and administrative expenses.

RESULTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Product revenue, net	88.2%	--%	87.9%	--%
Gross service fee revenue	13.0	90.1	13.2	93.3
Gross service fee revenue, affiliate	--	18.1	--	17.3
Total gross service fee revenue	13.0	108.2	13.2	110.6
Pass-through charges	(1.2)	(8.2)	(1.1)	(10.6)
Net service fee revenues	11.8	100.0	12.1	100.0
Total net revenues	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue)	94.5	--	94.4	--
Cost of service fee revenue (as % of net service fee revenue)	70.6	60.9	67.7	62.3
Total costs of revenues	91.7	60.9	91.2	62.3
Gross profit	8.3	39.1	8.8	37.7
Selling, general and administrative expenses ..	9.2	70.0	9.0	73.2
Severance and other termination costs	--	13.1	--	4.4
Asset impairments	--	9.7	--	3.3
Loss from operations	(0.9)	(53.7)	(0.2)	(43.2)
Equity in earnings of affiliate	--	2.8	--	4.1
Interest expense	0.7	1.2	0.8	0.9
Interest income	--	(2.8)	--	(3.3)
Loss before income taxes	(1.6)	(49.3)	(1.0)	(36.7)
Income tax expense	0.1	--	0.2	--
Net loss				

(1.7)%	(49.3)%	(1.2)%	(36.7)%
======	======	======	======

RESULTS OF OPERATIONS FOR THE INTERIM PERIODS ENDED SEPTEMBER 30, 2003 AND 2002

Product Revenue. Product revenue was $60.3 million and $183.2 million for the three and nine months ended September 30, 2003, respectively, which reflects product sales for Supplies Distributors subsequent to its consolidation effective October 1, 2002 (see "Supplies Distributors"). Supplies Distributors had $57.6 and $163.7 million of product revenue for the three and nine months, respectively, ended September 30, 2002 prior to consolidation. Based on Supplies Distributors' current business plan, we expect to report future product revenue of approximately $60 million to $70 million in the fourth quarter of 2003.

Net Service Fee Revenue (including service fee revenue, affiliate). Net service fee revenue was $8.1 million for the three months ended September 30, 2003 as compared to $9.5 million for the three months ended September 30, 2002, a decrease of $1.4 million or 14.9%. We earned $0.2 million of service fee revenues in the three months ended September 30, 2003, applicable to new service contract relationships. For the three months ended September 30, 2003, service fee revenues from existing clients increased $0.2 million from the prior period, including the impact of organic client growth and certain incremental projects. However, service fee revenues also decreased by (i) $2.0 million applicable to the elimination of service fee revenue, affiliate earned from our arrangements with Supplies Distributors, subsequent to its consolidation effective October 1, 2002, and (ii) the impact of certain client terminations in calendar year 2002, which had generated $0.1 million of net service fee revenue in the prior year period. Net service fee revenue was $25.1 million for the nine months ended September 30, 2003 as compared to $28.2 million for the nine months ended September 30, 2002, a decrease of $3.1 million or 11.0%. We earned $1.1 million of service fee revenues in the nine months ended September 30, 2003, applicable to new service contract relationships. For the nine months ended September 30, 2003, service fee revenues from existing clients increased $1.8 million from the prior period. However, these increases were more than offset primarily by (i) $6.0 million applicable to the elimination of service fee revenue, affiliate earned from our arrangements with Supplies Distributors, subsequent to its consolidation effective October 1, 2002, and (ii) the impact of certain client terminations in calendar year 2002, which had generated $1.2 million of net service fee revenue in the prior year period.

Cost of Product Revenue. Cost of product revenue was $57.0 million and $173.0 million for the three and nine months ended September 30, 2003, which reflects cost of product sales for Supplies Distributors subsequent to its consolidation effective October 1, 2002. Cost of product revenue as a percent of product revenue was 94.5% and 94.4% during the three and nine months ended September 30, 2003, respectively. Cost of product revenue includes additional reserves for inventory impairment of $1.4 million and $1.5 million for the three and nine months ended September 30, 2003, respectively. These additional reserves were partially offset by other inventory cost reductions from a vendor. The resulting gross profit margin was 5.5% and 5.6% for the three and nine months ended September 30, 2003, respectively, and includes the effect of the additional inventory impairment reserves and cost reductions along with certain increases in the sales prices for certain related product. Supplies Distributors had $54.4 million and $154.3 million of cost of product revenue, prior to consolidation, for the three and nine months ended September 30, 2002, respectively. The resulting gross profit margin was 5.6% and 5.7% for the three and nine months ended September 30, 2002, respectively. Based on Supplies Distributors' current business plan, we expect to report future cost of product revenue of approximately $57 million to $67 million in the fourth quarter of 2003.

Cost of Net Service Fee Revenue. Cost of net service fee revenue was $5.7 million for the three months ended September 30, 2003, as compared to $5.8 million during the three months ended September 30, 2002, a decrease of $0.1 million or 1.7%. The resulting service fee gross profit was $2.4 million or 29.4% of net service fee revenue, during the three months ended September 30, 2003 as compared to $3.7 million, or 39.1% of net service fee revenue for the three months ended September 30, 2002. Our gross profit as a percent of net service fee revenue decreased in the current period primarily as a result of the elimination of the service fee revenue affiliate and resulting gross profit from services provided under our arrangements with Supplies Distributors due to our consolidation in October 2002. Cost of net service fee revenue was $17.0 million for the nine months ended September 30, 2003, as compared to $17.5 million during the nine months ended September 30, 2002, a decrease of $0.5 million or 2.9%. The resulting service fee gross profit was $8.1 million or 32.3% of net service fee revenue, during the nine months ended September 30, 2003 as compared to $10.6 million, or 37.7% of net service fee revenue for the nine months ended September 30, 2002. Our gross profit as a percent of net service fee revenue decreased in the current period primarily as a result of the elimination of the service fee revenue affiliate and resulting gross profit from services provided under our arrangements with Supplies Distributors. As we add new service fee revenue in the future, we currently intend to target the underlying contracts to earn an average gross profit percentage of 30-40%.

Selling, General and Administrative Expenses. SG&A expenses were $6.3 million for the three months ended September 30, 2003, or 9.2% of total net revenues, as compared to $6.7 million, or 70.0% of total net revenues, for the three months ended September 30, 2002. SG&A expenses were $18.8 million for the nine months ended September 30, 2003, or 9.0% of total net revenues, as compared to $20.6 million, or 73.2% of total net revenues, for the nine months ended September 30, 2002. SG&A expenses as a percentage of total net revenues decreased from the prior year due to the increase in total net revenues, resulting from the inclusion of product sales subsequent to the consolidation of Supplies Distributors effective October 1, 2002. SG&A expenses decreased from the prior year due to the restructuring actions, including personnel reductions, which occurred in September 2002. In addition, the prior year SG&A expense included certain incremental sales and marketing costs. These items were partially offset as due to the consolidation of Supplies Distributors, we reclassify certain costs previously characterized as cost of service fee revenue to SG&A. We are targeting our future consolidated SG&A expenses to be between approximately $6.0 million to $7.0 million in the fourth quarter of 2003.

Asset Impairments. For the three and nine months ended September 30, 2002, we recorded $0.9 million of expense for asset impairment and abandonment charges. This charge relates to an older warehouse management system that was upgraded to a new system during the quarter, as well as the disposition of certain other assets no longer used in the business.

Severance and Other Terminations Costs. For the three and nine months ended September 30, 2002, we recorded $1.2 million of severance and other termination charges associated with a restructuring plan to reduce costs.

Equity in Earnings of Affiliate. For the three and nine months ended

September 30, 2002, we recorded $0.3 million and $1.2 million, respectively, of equity in earnings of affiliate that represents our allocation of

Supplies Distributors' earnings prior to October 1, 2002. Due to the consolidation of Supplies Distributors, effective October 1, 2002, we no longer report equity in earnings of affiliate, on a consolidated basis, for our ownership of Supplies Distributors.

Interest Expense. Interest expense was $0.5 million for the three months ended September 30, 2003 as compared to $0.1 million for the three months ended September 30, 2002. Interest expense was $1.7 million for the nine months ended September 30, 2003 as compared to $0.3 million for the nine months ended September 30, 2002. The increase in interest expense is due to the consolidation of Supplies Distributors. Based on current estimates of interest rates and borrowing levels, we expect interest expense to be approximately $0.4 million to $0.7 million in the fourth quarter of 2003.

Interest Income. Interest income was $0.01 million and $0.3 million for the three months ended September 30, 2003 and 2002, respectively. Interest income was $0.1 million and $1.0 million for the nine months ended September 30, 2003 and 2002, respectively. Effective October 1, 2002 we now report lower consolidated interest income resulting from the elimination of interest income from the Subordinated Note due to PFS from Supplies Distributors upon consolidating Supplies Distributors. Interest income, prior to the consolidation of Supplies Distributors, would have been $0.2 million and $0.7 million for the three and nine months ended September 30, 2003 respectively. Interest income decreased as compared to the three and nine months ended September 30, 2002, respectively, attributable to lower interest rates earned by our cash and cash equivalents and lower balances of cash and cash equivalents.

Income Taxes. For the three and nine months ended September 30, 2003, we recorded a tax provision of $0.1 million and $0.3 million, respectively, primarily associated with Supplies Distributors' Canadian and European operations. We did not record an income tax benefit associated with our consolidated net loss in our U.S. operations. A valuation allowance has been provided for our net deferred tax assets as of September 30, 2003, which are primarily related to our net operating loss carryforwards. For the three and nine months ended September 30, 2002, we did not record an income tax benefit. We did not record an income tax benefit for our PFSweb European pre-tax losses in the current or prior period. Due to the consolidation of Supplies Distributors, in the future we anticipate that we will continue to record an income tax provision associated with Supplies Distributors' Canadian and European results of operations.

SUPPLIES DISTRIBUTORS

In July 2001, we and Inventory Financing Partners, LLC ("IFP") formed Business Supplies Distributors Holdings, LLC ("Holdings"), and Holdings formed a wholly-owned subsidiary, Supplies Distributors ("SD"). Concurrently, SD formed its wholly-owned subsidiaries Supplies Distributors of Canada, Inc. ("SDC") and Supplies Distributors S.A. ("SDSA"), a Belgium corporation (collectively with Holdings, SD, SDC and SDSA, "Supplies Distributors"). Supplies Distributors acts as master distributors of various IBM and other products and, pursuant to a transaction management services agreement between us and Supplies Distributors, we provide transaction management and fulfillment services to Supplies Distributors. We made an initial equity investment in Holdings for a 49% voting interest, and IFP made an equity investment for a 51% voting interest. Certain officers and directors of PFSweb owned, individually, a 9.8% non-voting interest, and, collectively, a 49% non-voting interest, in IFP. In addition to our equity investment in Holdings, we have also provided Supplies Distributors with a subordinated loan that, as of September 30, 2003, had an outstanding balance of $8.0 million and accrued interest at a rate of approximately 10%.

On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") to finance its distribution of IBM products. We provided a collateralized guaranty to secure the repayment of these credit facilities. As of September 30, 2003, the subsequently amended asset-based credit facilities provided financing for up to $27.5 million and up to 12.5 million Euros (approximately $14.1 million) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2004.

In March 2002, Supplies Distributors also entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to $25 million of eligible accounts receivables in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. In March

2002, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million Euros (approximately $8.4 million) of eligible accounts receivables. Borrowings under this agreement can be either cash advances or straight loans, as defined.

These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, SD and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $8.0 million, maintain restricted cash of less than $5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure and a minimum shareholders' equity, as defined, of at least $18.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or SDSA under these facilities if SD, SDC or SDSA is unable to do so. We have also provided a guarantee of the obligations of SD and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Effective October 1, 2002, we purchased the remaining 51% interest in Holdings from IFP.

Pursuant to the terms of our transaction management services agreement with Supplies Distributors, we earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements (prior to the consolidation of Supplies Distributors' results of operations effective October 1, 2002), of approximately $1.7 million and $4.7 million for the three and nine months ended September 30, 2002, respectively.

Prior to the consolidation of Supplies Distributors' operating results effective October 1, 2002, we recorded our interest in Supplies Distributors' net income, which was allocated and distributed to the owners pursuant to the terms of Supplies Distributors' operating agreement, under the modified equity method, which resulted in us recording our allocated earnings of Supplies Distributors or 100% of Supplies Distributors' losses and our proportionate share of Supplies Distributors' cumulative foreign currency translation adjustments. Pursuant to Supplies Distributors' operating agreement, Supplies Distributors allocated its earning and distributed its cash flow, as defined, in the following order of priority: first, to IFP until it received a one-time amount equal to its capital contribution of $0.25 million; second, to IFP until it received an amount equal to a 35% cumulative annual return on its capital contribution; third, to PFSweb until it received a one-time amount equal to its capital contribution of $0.75 million; fourth, to PFSweb until it received an amount equal to a 35% cumulative annual return on its capital contribution; and fifth, to PFSweb and IFP, pro rata, in accordance with their respective capital accounts. We recorded $0.3 million and $1.2 million of equity in the earnings of Supplies Distributors for the three and nine months ended September 30, 2002, respectively. As a result of our 100% ownership of Supplies Distributors, future earnings and dividends will be allocated and paid 100% to PFSweb. Notwithstanding the foregoing, no distribution could be made if, after giving effect thereto, the net worth of Supplies Distributors would be less than $1.0 million. Under terms of the credit agreements described above, Supplies Distributors is currently limited to annual cash dividends of $0.6 million. In March 2003, Supplies Distributors received lender approval for a distribution to us of $600,000, which was paid in September 2003.

Beginning October 1, 2002, as a result of the purchase, we now consolidate 100% of Supplies Distributors financial position and results of operations into our consolidated financial statements. Pro forma net revenues and pro forma net loss for the three months ended September 30, 2002, assuming our purchase of the remaining 51% interest in Supplies Distributors from IFP had occurred in January 2002, would have been $65.4 million and $4.5 million, respectively. Pro forma net revenues and pro forma net loss for the nine months ended September 30, 2002, assuming our purchase of the remaining 51% interest in Supplies Distributors from IFP had occurred in January 2002, would have been $187.1 million and $9.7 million, respectively. The pro forma data for the nine months ended September 30, 2002 includes a $0.2 million extraordinary gain on the purchase from IFP, primarily as a result of the purchase price being less than IFP's capital account. The unaudited pro forma net revenue and pro forma net loss are not necessarily indicative of the consolidated results of operations for future periods or the results of operations that would have been realized had we consolidated Supplies Distributors during the period noted.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $13.7 million for the nine months ended September 30, 2003, and primarily resulted from a $8.5 million decrease in inventory and an increase in accounts payable and accrued expenses of $3.9 million, partially offset by an increase in accounts receivable of $1.1 million. The September 30, 2003, accounts payable balance was higher than normal primarily due to the timing of invoice processing by our large master distributor vendor and due to the timing of certain client remittances. We expect accounts payable to decrease during the December 31, 2003 quarter. Net cash used in operating activities was $3.0 million for the nine months ended September 30, 2002, and primarily resulted from cash used to fund operating losses, partially offset by an increase in accounts payable and accrued expenses of $1.7 million and a decrease in prepaid expenses, other receivables and other current assets of $1.2 million.

Net cash provided by investing activities for the nine months ended September 30, 2003 totaled $0.7 million, resulting primarily from a decrease in restricted cash offset by capital expenditures. Net cash provided by investing activities totaled $1.2 million for the nine months ended September 30, 2002, representing the net repayment of $2.9 million by Supplies Distributors of the subordinated loan, offset by capital expenditures of $1.5 million and a $0.2 million increase in our restricted cash balance. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $2 to $4 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. A portion of these expenditures may be financed through operating or capital leases. We may elect to modify or defer a portion of such anticipated investments in the event that we do not achieve the revenue necessary to support such investments.

Net cash used in financing activities was approximately $11.5 million for the nine months ended September 30, 2003, primarily representing $0.7 million of payments on our capital lease obligations and $11.4 million of payments on debt, offset by $0.6 million of proceeds from the issuance of common stock pursuant to our employee stock purchase and stock option programs. As a result of anticipated reductions in our accounts payable balance during the December 31, 2003 quarter, we expect to have corresponding increases in our outstanding debt levels. Net cash used in financing activities was approximately $0.4 million for the nine months ended September 30, 2002, representing $0.8 million of payments on our long-term debt and capital lease obligations offset by the proceeds from debt and from the issuance of common stock pursuant to our employee stock purchase program.

During the nine months ended September 30, 2003, our working capital increased slightly to $18.4 million from $16.1 million at December 31, 2002 resulting primarily from a reduction in our restricted cash balance, which resulted in a reclassification of a portion of our restricted cash from a long-term asset to a current asset. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including the sale of equity (including a November 2003 private placement transaction discussed below), utilizing capital or operating leases, borrowing under our own credit facility, or transferring a portion of our subordinated loan balances due from Supplies Distributors to third-parties. In conjunction with certain of these alternatives, we may be required to provide certain letters of credit to secure these arrangements. No assurances can be given that we will be successful in obtaining any additional financing or the terms thereof. We currently believe that our cash position, financing available under our credit facilities and funds generated from operations (including our anticipated revenue growth and/or cost reductions to offset lower than anticipated revenue growth) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our lease obligations, and additional subordinated loans to Supplies Distributors, if necessary, for at least the next twelve months.

The following is a schedule of our total contractual cash and other obligations, which is comprised of operating leases, other obligations (which represents $0.1 million of contingent obligations we believe will be paid in the next twelve months), long-term debt and capital leases, including interest (in millions):

TOTAL CONTRACTUAL DEBT AND CONTRACTUAL
CASH AND OPERATING CAPITAL OTHER LEASES
LEASES OBLIGATIONS --------- ----------- -
---------- Twelve Months Ended September
30,
2004.......................................
$ 55,713 $ 921 $ 56,634
2005.......................................
3,568 575 4,143
2006.......................................
3,291 429 3,720
2007.......................................
1,907 425 2,332
2008.......................................
894 283 1,177
Thereafter.................................
326 -- 326 --------- -------- ---------
Total contractual cash obligations... $
65,699 $ 2,633 $ 68,332 ========= ========
=========

In support of certain debt instruments and leases, as of June 30, 2003, we had $2.8 million of cash restricted as collateral for letters of credit. In September 2003, in connection with the amendment to our credit facility with Comerica, we refinanced certain debt instruments and leases. This refinancing allowed us to reduce the amount of letters of credit, and resulting restricted cash collateral to $1.1 million. The remaining letters of credit currently expire at various dates through April 2006, the related debt and lease obligations termination dates. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain Supplies Distributors' credit facilities. As of September 30, 2003, the outstanding balance of our senior credit facilities was approximately $50.0 million. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of stockholders' equity, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. Any requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of September 30, 2003, we were in compliance with all debt covenants and we believe that we will maintain such compliance throughout calendar year 2003. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders, in the event that Supplies Distributors or its subsidiaries are unable to do so. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. We are also required to maintain a subordinated loan to Supplies Distributors of $8.0 million. We have to seek lender approval to increase or decrease this amount. We do not have any other material financial commitments.

In September 2002, we implemented a restructuring plan and terminated approximately 10% of our workforce. As a result of the terminations and certain asset write-offs recorded during the three months ended September 30, 2002, we believe we have reduced our annual operating expenses by approximately $5 million to $6 million. We also continue to seek out other non-payroll related operating expense reductions that could impact this amount further.

We currently believe that we are still operating with and incurring costs applicable to excess physical capacity in our North American and European operations. We believe that based on our current cost structure, as we add revenue, we will be able to cover our reduced infrastructure costs and reach profitability. We currently estimate that the net service fee revenue needed to leverage our existing infrastructure and cost structure and reach profitability is approximately between $12 million to $13 million per quarter, including service fees earned from our subsidiary Supplies Distributors, which are eliminated in consolidation. No assurance can be given that we can achieve such operating levels, or that, if achieved, we will be profitable in any particular fiscal period. We will reevaluate the carrying value of certain of the excess long-lived warehouse operation and information technology infrastructure assets for impairment in 2003, in conjunction with our future operating plans, and determine if additional asset impairment costs should be recognized.

In the future, we may attempt to acquire other businesses or seek an equity or strategic partner to generate capital or expand our services or capabilities in connection with our efforts to grow our business. Acquisitions involve certain risks and uncertainties and may require additional financing. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire or an equity or strategic partner, whether we or they will be able to obtain financing to complete a transaction, or whether we or they will be successful in operating the acquired business.

On March 28, 2003, Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc., (both wholly-owned subsidiaries of PFSweb and collectively the "Borrowers") entered into a two year Loan and Security Agreement with Comerica Bank ("Comerica") to provide financing for up to $7.5 million of eligible accounts receivable in the U.S. and Canada. We entered this agreement to supplement our existing cash position, and provide funding for our future operations, including our targeted growth. Borrowings under the Comerica facility accrue interest at prime rate plus 1%. On September 11, 2003, the Borrowers and Comerica amended this agreement to provide financing for up to $5.0 million of eligible accounts receivable and financing for up to $2.5 million of eligible equipment purchases (Equipment Advances). Outstanding Equipment Advances under the amended Comerica facility accrue interest at prime rate plus 1.5% and have a final maturity date of September 10, 2006. The agreement contains cross default provisions, various restrictions upon the Borrowers' ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth, as defined, and a minimum liquidity ratio, as defined. The agreement also limits our ability to increase the subordinated loan to Supplies Distributors without the lender's approval. The agreement is secured by all of the assets of the Borrowers, as well as a guarantee of PFSweb. At September 30, 2003, we had $1.3 million outstanding under this facility that was subsequently repaid in October 2003. The amendment in September 2003 allowed us to reduce certain of our existing letters of credit, and thus remove restrictions on the related cash security.

On November 7, 2003, We entered into a Securities Purchase Agreement (the "Agreement") with certain institutional investors in a private placement transaction pursuant to which we issued and sold an aggregate of 1,581,944 shares of our common stock, par value $.001 per share (the "Common Stock"), at $2.16 per share, resulting in gross proceeds of $3.4 million. After deducting expenses, the net proceeds are approximately $3.2 million. In addition to the Common Stock, the investors received one-year warrants to purchase an aggregate 525,692 shares of Common Stock at an exercise price of $3.25 per share and four-year warrants to purchase an aggregate of 395,486 shares of Common Stock at an exercise price of $3.30 per share (collectively with the one year warrants, the "Warrants").

The securities issued in the private placement have not been registered under the Securities Act of 1933 or any state securities laws and unless so registered may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933 and applicable state securities laws. We have agreed to file a registration statement within 30 days for the resale of the shares of the Common Stock, including all shares of Common Stock underlying the Warrants, and to use our reasonable efforts to have the registration statement declared effective by the Securities and Exchange Commission within 90 days of the closing. We will be required to pay a monthly penalty to the investors equal to 1% of the aggregate proceeds paid by the investors to the Company, pro rated for each day after the 90th day that the registration statement has not been declared effective and under certain other circumstances described in the Agreement.

We intend to use the net proceeds from the private placement for general working capital purposes.

CONTINUED LISTING ON NASDAQ SMALLCAP MARKET

In June 2002, the NASDAQ approved our transition from the NASDAQ National Market System to the NASDAQ SmallCap Market. Our securities began trading on the NASDAQ SmallCap Market on June 10, 2002.

This transition occurred in response to the Company's liability to meet NASDAQ Marketplace Rule 4450(a), which requires a minimum bid price of $1.00 for continued listing on the NASDAQ National

Market. The SmallCap Market also has a minimum bid price of $1.00 per share. On August 12, 2003, we received a NASDAQ Listing Qualifications Panel Notification that PFSweb has evidenced compliance with all NASDAQ SmallCap Market listing requirements. Accordingly, our stock will continue to be traded on the NASDAQ SmallCap Market. The Panel has closed our hearing file, and PFSweb's common stock will not be subject to delisting.

SEASONALITY

The seasonality of our business is dependent upon the seasonality of our clients' business and sales of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix, our PFSweb service fee business activity will be at it lowest in the quarter ended March 31 and at its highest in the quarter ended June 30. We expect our Supplies Distributors business to be seasonally strong in the December quarter of each year.

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 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The adoption of this standard did not have a material impact on our consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the provisions of SFAS 123 to require more prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results of operations. We adopted the disclosure requirements of SFAS 148 as of December 31, 2002.

In January 2003, the FASB issued FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others." FIN No. 45 requires a company to recognize a liability for the obligations it has undertaken in issuing a guarantee. This liability would be recorded at the inception of a guarantee and would be measured at fair value. The measurement provisions of this statement apply prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions of the statement apply to financial statements for periods ending after December 15, 2002. We adopted the disclosure provisions of the statement as of December 31, 2002 and the measurement provisions of this statement during the three months ended March 31, 2003. The adoption of this statement did not have a material effect on our consolidated financial statements.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN 46 requires a company to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the company does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. We adopted the provisions of FIN No. 46 during the three months ended March 31, 2003. The adoption of the statement did not have a material effect on our consolidated financial statements.

The FASB Emerging Issues Task Force issued EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables," to address certain revenue recognition issues. The guidance provided from EITF 00-21 addresses both the timing and classification in accounting for different earnings processes. The adoption of EITF 00-21 did not have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer measures certain financial instruments with characteristics of both liabilities and equity and classifies them in its statements of financial position. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) when that financial instrument embodies an obligation of the issuer. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, and the adoption of SFAS 150 did not have a material impact on our consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

A description of critical accounting policies is included in Note 2 to the accompanying unaudited interim condensed consolidated financial statements. For other significant accounting policies, see Note 2 to the consolidated financial statements in our December 31, 2002 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rate Risk

Our interest rate risk is limited to our outstanding balances on our inventory and working capital financing agreements, loan and security agreements and factoring agreement for the financing of inventory, accounts receivable and certain other receivables, which amounted to $49.8 million at September 30, 2003. A 100 basis point movement in interest rates would result in approximately $0.2 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at September 30, 2003.

Foreign Exchange Risk

Currently, our foreign currency exchange rate risk is primarily limited to the Canadian Dollar and the Euro. In the future, our foreign currency exchange risk may also include other currencies applicable to certain of our international operations. We may, from time to time, employ derivative financial instruments to manage our exposure to fluctuations in foreign currency rates. To hedge our net investment and intercompany payable or receivable balances in foreign operations, we may enter into forward currency exchange contracts. We do not hold or issue derivative financial instruments for trading purposes or for speculative purposes.

ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b), Company management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Rule 13a-15(d), Company management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

EXHIBIT NO.
DESCRIPTION
OF EXHIBITS
------- ----

------- 3.1*
Amended and
Restated
Certificate
of
Incorporation
3.2* Amended
and Restated
Bylaws
10.1** First
Amendment to
Loan and
Security
Agreement
made as of
September
11, 2003 by
and between
Priority
Fulfillment
Services,
Inc.,
Priority
Fulfillment
Services of
Canada, Inc.
and Comerica
Bank. 31.1**
Certification
of Chief
Executive
Officer
Pursuant to
18 U.S.C.
Section 1350
31.2**
Certification
of Chief
Financial
Officer
Pursuant to
18 U.S.C.
Section 1350
32.1**
Certification
of Chief
Executive

Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 32.2** Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

** Filed herewith

b) Reports on Form 8-K:

Form 8-K furnished on August 13, 2003 reporting Item 12, Results of Operations and Financial Condition, that on August 13, 2003, PFSweb, Inc. issued a press release announcing its financial results for the quarter ended June 30, 2003.

SIGNATURES

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

Date: November 14, 2003

PFSweb, Inc.

By: /s/ Thomas J. Madden
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Thomas J. Madden
Chief Financial Officer,
Chief Accounting Officer,
Executive Vice President

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION OF EXHIBITS
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1**	First Amendment to Loan and Security Agreement made as of September 11, 2003 by and between Priority Fulfillment Services, Inc., Priority Fulfillment Services of Canada, Inc. and Comerica Bank.
31.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
31.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906

of the
Sarbanes-
Oxley Act of
2002

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

** Filed herewith

EXHIBIT 10.1

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (herein called this "Amendment") made as of the 11th day of September, 2003 by and between Priority Fulfillment Services, Inc. ("Priority"), Priority Fulfillment Services of Canada, Inc. ("Priority Canada"; Priority and Priority Canada are sometimes collectively referred to herein as "Borrowers", and each individually as "Borrower") and Comerica Bank (successor by merger to Comerica Bank-California ("Bank"),

W I T N E S S E T H:

WHEREAS, Borrowers and Bank have entered into that certain Loan and Security Agreement dated as of March 28, 2003 (as from time to time amended or modified, the "Original Agreement") for the purposes and consideration therein expressed, pursuant to which Bank became obligated to make loans to Borrowers as therein provided; and

WHEREAS, Borrowers and Bank desire to amend the Original Agreement to provide for term loans and for the other purposes set forth herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Original Agreement, in consideration of the loans which may hereafter be made by Bank to Borrowers, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

Definitions and References

Section 1.1 Terms Defined in the Original Agreement. Unless the context otherwise requires or unless otherwise expressly defined herein, the terms defined in the Original Agreement shall have the same meanings whenever used in this Amendment.

Section 1.2. Other Defined Terms. Unless the context otherwise requires, the following terms when used in this Amendment shall have the meanings assigned to them in this Section 1.2.

"Amendment" means this First Amendment to Loan and Security Agreement.

"Loan Agreement" means the Original Agreement as amended hereby.

ARTICLE II.

Amendments to Original Agreement

Section 2.1. Defined Terms.

(a) The definition of "Committed Revolving Line" in Exhibit A to the Original Agreement is hereby amended in its entirety to read as follows:

"Committed Revolving Line" means a Credit Extension of up to $5,000,000 (inclusive of any amounts outstanding under the Letters of Credit Sublimit).

(b) The following definitions are hereby added to Exhibit A to the Original Agreement following the definition of "Equipment":

"Equipment Advance" has the meaning set forth in Section 2.1A(b).

"Equipment Line" means Equipment Advances of up to $2,500,000.

"Equipment Maturity Date" means September 10, 2006.

(c) The following definitions are hereby added to Exhibit A to the Original Agreement immediately following the definition of "Trademarks":

"Tranche A" has the meaning assigned in Section 2.1A(b)(i).

"Tranche B" has the meaning assigned in Section 2.1A(b)(i).

"Tranche A Equipment Advance" or "Tranche A Equipment Advances" means any Equipment Advance(s) made under Tranche A.

"Tranche B Equipment Advance" or "Tranche B Equipment Advances" means any Equipment Advance(s) made under Tranche B.

"Tranche A Availability End Date" means March 10, 2004.

"Tranche B Availability End Date" means September 10, 2004.

Section 2.2. Equipment Advances. The following Section 2.1A is hereby added to the Original Agreement immediately following Section 2.1:

2.1A Equipment Advances.

(a) Promise to Pay. Borrowers promise to pay to Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Equipment Advances made by Bank to Borrowers, together with interest on the unpaid principal amount of such Equipment Advances at rates in accordance with the terms hereof.

(b) Equipment Advances.

(i) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make advances (each an "Equipment Advance" and, collectively, the "Equipment Advances") under the Equipment Line to Borrowers. The first Equipment Advance shall be used to refinance Priority's existing equipment leases, including buyout provisions, with various creditors (the "First Equipment Advance"). Each subsequent Equipment Advance shall be advanced in two tranches, Tranche A and Tranche B. Each Borrower may request Equipment Advances under Tranche A at any time from the date hereof through the Tranche A Availability End Date. Each Borrower may request Equipment Advances under Tranche B at any time from the Tranche A Availability End Date through the Tranche B Availability End Date. Neither the amount of any individual Equipment Advance, nor the aggregate remaining outstanding principal balance of Equipment Advances shall exceed the Equipment Line and the aggregate amount of Tranche A Equipment Advances and Tranche B Equipment Advances shall not exceed $1,000,000. Each Equipment Advance (other than the First Equipment Advance) shall not exceed 80% of the invoice amount of equipment and software approved by Bank from time to time (which the applicable Borrower shall, in any case, have purchased within 90 days of the date of the corresponding Equipment Advance), including taxes, shipping, warranty charges, freight discounts and installation expense (collectively, "Soft Costs"); provided that (i) the aggregate amount of Equipment Advances (excluding the First Equipment Advance) made with respect to Soft Costs shall not exceed $200,000, and (ii) the aggregate amount of Equipment Advances (excluding the First Equipment Advance) with respect to Soft Costs shall not exceed twenty percent (20%) of the aggregate principal amount of Equipment Advances (excluding the First Equipment Advance).

(ii) Interest shall accrue from the date of each Equipment Advance at the rate specified in Section 2.3(a), and shall be payable in accordance with Section 2.3(c). The First Equipment Advance shall be payable in 30 equal installments of principal, plus all accrued interest, beginning on October 1, 2003, and continuing on the same day of each month thereafter until March 1, 2006, at which time all amounts due in connection with the First Equipment Advance shall be immediately due and payable. Any Equipment Advances that are outstanding under Tranche A on the Tranche A Availability End Date shall be payable in 30 equal monthly installments of principal, plus all accrued interest, beginning on April 1, 2004, and continuing on the same day of each month thereafter through the Equipment Maturity Date at which time all amounts due in connection with Tranche A Equipment Advances made under this Section 2.1A(b) shall be immediately due and payable. Any Equipment Advances that are outstanding under Tranche B on the Tranche B Availability End Date shall be payable in 24 equal monthly installments of principal, plus all accrued interest, beginning on October 1, 2004 and continuing on the same day of each month thereafter through the Equipment Maturity Date, at which time all amounts due in connection with Tranche B Equipment Advance made under this Section 2.1A(b) shall be immediately due and payable. Equipment Advances, once repaid, may not be reborrowed. Borrowers may prepay any Equipment Advances without penalty or premium.

(iii) When a Borrower desires to obtain an Equipment Advance, such Borrower shall notify Bank (which notice shall be irrevocable) by facsimile transmission to be received no later than 3:00 p.m (Pacific time). The notice shall be signed by a Responsible Officer or its designee and include a copy of the invoice for any Equipment to be financed.

Section 2.3. Interest Rate. The following sentence is hereby added to Section 2.3(a) of the Original Agreement:

Except as set forth in Section 2.3(b), the Equipment Advances shall bear interest, on the outstanding daily balance thereof, at a rate equal to 1.5% above the Prime Rate.

Section 2.4. Equipment Line. The following Section 2.7 is hereby added to the Original Agreement:

2.7. Equipment Line Following Termination of Committed Revolving Line . In the event all Advances are paid in full and the Committed Revolving Line is terminated prior to the payment in full of the Equipment Advances, unless Borrowers comply with the requirements of either clause (a) or (b) of this Section 2.7, this Agreement will remain in full force and effect (except as to the availability of the Committed Revolving Line) and Bank's security interest in the Collateral will continue to secure Borrowers' obligations under the Equipment Line.

(a) Borrowers may, at their option, pay to Bank in full all amounts outstanding (all unpaid principal and accrued interest through the date of payoff) under the Equipment Line, whereupon (i) Borrowers' rights to receive, and Bank's obligations to make, Equipment Advances under the Equipment Line shall automatically terminate, (ii) Bank shall release its security interests in the Collateral, and (iii) this Agreement shall terminate (subject to Section 12.7 hereof); or

(b) Borrowers may, at their option, concurrently with the termination of the Committed Revolving Line, deposit with Bank (or an Affiliate of Bank) an amount equal to the aggregate principal balance of the Equipment Advances then outstanding (the "Additional Cash Collateral") and execute a pledge and security agreement in favor of Bank, in form and substance satisfactory to Bank, pursuant to which Borrowers shall grant a first priority security interest in favor of Bank in the Additional Cash Collateral. Upon receipt of the Additional Cash Collateral and executed pledge and security agreement, Bank will release its security interest in all Collateral other than the

Additional Cash Collateral and all of the covenants contained in Articles 6 and 7 hereof (other than 6.1, 6.2(b)-(g) and 6.4) shall terminate and be of no further force or effect. Bank agrees that it will, from time to time upon written request by Borrowers, release its security interest on, and distribute in accordance with Borrowers' written directions, Additional Cash Collateral in an amount equal to the amount by which the Additional Cash Collateral exceeds the aggregate outstanding principal balance of the Equipment Line as of the date of such request. When all Equipment Advances and other Obligations have been paid in full, Bank shall release its security interest in any remaining Additional Cash Collateral.

Section 2.5. Financial Covenants. Section 6.7 of the Original Agreement is hereby amended by adding the following subsection (c):

(c) Minimum Cash. A balance of Cash at Bank and Cash at Bank's affiliates covered by a control agreement of not less than $1,250,000.

Section 2.6. Exhibits. Exhibit E to the Original Agreement is hereby amended in its entirety to read as set forth in Exhibit E attached hereto.

ARTICLE III.

Conditions of Effectiveness

Section 3.1. Effective Date. This Amendment shall become effective as of the date first above written when and only when (i) Bank shall have received, at Bank's office, a counterpart of this Amendment executed and delivered by Borrowers, (ii) Borrowers shall have paid Bank, in good and immediately available funds, a facility fee in the amount of $2,500 with respect to the Equipment Line, and (iii) Bank shall have received an executed payoff letter from the various equipment creditors of Priority, in form and substance satisfactory to Bank, for the termination of Priority's existing Equipment leases with such creditors.

ARTICLE IV.

Representations and Warranties

Section 4.1. Representations and Warranties of Borrowers. In order to induce Bank to enter into this Amendment, each Borrower represents and warrants to Bank that:

(a) The representations and warranties contained in Article 5 of the Original Agreement are true and correct at and as of the time of the effectiveness hereof.

(b) Each Borrower is duly authorized to execute and deliver this Amendment and is and will continue to be duly authorized to borrow and to perform its obligations under the Loan Agreement. Each Borrower has duly taken all corporate action necessary to authorize the execution and delivery of this Amendment and to authorize the performance of the obligations of such Borrower hereunder.

(c) The execution and delivery by Borrowers of this Amendment, the performance by Borrowers of their obligations hereunder and the consummation of the transactions contemplated hereby do not and will not conflict with any provision of law, statute, rule or regulation or of the organizational documents of Borrowers, or of any material agreement, judgment, license, order or permit applicable to or binding upon Borrowers, or result in the creation of any lien, charge or encumbrance upon any assets or properties of Borrowers. Except for those which have been duly obtained, no consent, approval, authorization or order of any court or governmental authority or third party is required in connection with the execution and delivery by Borrowers of this Amendment or to consummate the transactions contemplated hereby.

(d) When duly executed and delivered, each of this Amendment and the Loan Agreement will be a legal and binding instrument and agreement of Borrowers, enforceable in accordance with its terms, except as limited by bankruptcy, insolvency and similar laws applying to creditors' rights generally and by principles of equity applying to creditors' rights generally.

ARTICLE V

Miscellaneous

Section 5.1. Ratification of Agreements. The Original Agreement as hereby amended is hereby ratified and confirmed in all respects. Any reference to the Loan Agreement in any Loan Document shall be deemed to be a reference to the Original Agreement as hereby amended. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Bank under the Loan Agreement or any other Loan Document nor constitute a waiver of any provision of the Loan Agreement or any other Loan Document.

Section 5.2. Survival of Agreements. All representations, warranties, covenants and agreements of Borrowers herein shall survive the execution and delivery of this Amendment and the performance hereof, including without limitation the making or granting of the Advances and Equipment Advances, and shall further survive until all of the Obligations are paid in full. All statements and agreements contained in any certificate or instrument delivered by Borrowers hereunder or under the Loan Agreement to Bank shall be deemed to constitute representations and warranties by, or agreements and covenants of, Borrowers under this Amendment and under the Loan Agreement.

Section 5.3. Loan Documents. This Amendment is a Loan Document, and all provisions in the Loan Agreement pertaining to Loan Documents apply hereto.

Section 5.4. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of California and any applicable laws of the United States of America in all respects, including construction, validity and performance.

Section 5.5. Counterparts. This Amendment may be separately executed in counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to constitute one and the same Amendment.

THIS AMENDMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS OF THE PARTIES.

IN WITNESS WHEREOF, this Amendment is executed as of the date first above written.

PRIORITY FULFILLMENT SERVICES, INC.

By: ________________________________

Name:

Title:

PRIORITY FULFILLMENT SERVICES OF CANADA, INC.

By: ________________________________

Name:

Title:

COMERICA BANK (successor by merger with Comerica Bank-California)

By: ________________________________

Name:

Title:

CONSENT AND AGREEMENT

PFSWEB, INC., a Delaware corporation, hereby consents to the provisions of this Amendment and the transactions contemplated herein, and hereby ratifies and confirms the Guaranty dated as of March 28, 2003 made by it for the benefit of Bank, and agrees that its obligations and covenants thereunder are unimpaired hereby and shall remain in full force and effect.

PFSWEB, INC.

By:

Name:
Title:

EXHIBIT E
COMPLIANCE CERTIFICATE

TO: COMERICA BANK - CALIFORNIA

FROM: PRIORITY FULFILLMENT SERVICES, INC. and PRIORITY FULFILLMENT SERVICES OF CANADA, INC.

The undersigned authorized officer of Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc. (collectively, "Borrowers") hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between Borrowers and Bank (the "Agreement"), (i) Borrowers are in complete compliance for the period ending __________ with all required covenants, including without limitation the ongoing registration of intellectual property rights in accordance with Section 6.8, except as noted below and (ii) all representations and warranties of Borrowers stated in the Agreement are true and correct in all material respects as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

PLEASE INDICATE COMPLIANCE STATUS BY CIRCLING YES/NO UNDER "COMPLIES" COLUMN.

REPORTING
COVENANT
REQUIRED
COMPLIES --

----- -----
--- -------
- Monthly
financial
statements
Monthly
within 35
days Yes No
Annual (CPA
Audited) of
Guarantor
FYE within
90 days Yes
No Annual
(CPA
Audited) of
BSD FYE
within 90
days Yes No
10Q of
Guarantor
Quarterly
within 45
days Yes No
10K of
Guarantor
FYE within
90 days Yes
No A/R &
A/P Agings,
Borrowing
Base Cert.
Monthly
within 30
days* Yes
No A/R
Audit
Initial and
Semi-Annual
Yes No IP
Report
Quarterly
within 30
days Yes No
ACTUAL ----
-- Adjusted
Tangible
Net Worth
$21,000,000

$___________
Yes No

* Weekly during any period that Adjusted Tangible Net Worth is less than $21,000,000

FINANCIAL
COVENANT
REQUIRED
ACTUAL
COMPLIES --

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

Maintain on
a Monthly
Basis:
Minimum
Tangible
Net Worth
$19,000,000
$___________
Yes No
Minimum
Liquidity
1.50 : 1.00
_____ :
1.00 Yes No
Minimum
Cash
$1,250,000
$___________
Yes No

COMMENTS REGARDING EXCEPTIONS: See Attached.

Sincerely,

- ---
SIGNATURE

- ---
TITLE

- ---
DATE

BANK USE ONLY

Received By: ---------------------------------

AUTHORIZED SIGNER

Date: --

Verified: ------------------------------------

AUTHORIZED SIGNER

Date: --

Compliance Status Yes No

EXHIBIT 31.1

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

I, Mark Layton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

By: /s/ Mark C. Layton

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

I, Tom Madden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2003

By: /s/ Thomas J. Madden

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PFSweb, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark C. Layton, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark C. Layton

Mark C. Layton
Chief Executive Officer
November 14, 2003

A signed original of this written statement required by Section 906 has been provided to PFSweb, Inc. and will be retained by PFSweb, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of PFSweb, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas J. Madden, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer
November 14, 2003

A signed original of this written statement required by Section 906 has been provided to PFSweb, Inc. and will be retained by PFSweb, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.