

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2002

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-28275

PFSWEB, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State of Incorporation)

75-2837058

(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 No

At November 7, 2002 there were 18,311,683 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, 2002

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

PFSWEB, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	September 30,	December 31,	2002	2001	-----
	(unaudited) CURRENT ASSETS: Cash and cash equivalents				
					\$ 8,611 \$
10,669	Accounts receivable, net of allowance for doubtful accounts of \$197 and \$254 at September 30, 2002 and December 31, 2001, respectively				6,992 6,915
	Other receivables				-- 92
	Prepaid expenses and other current assets				1,946 2,646
	Total current assets				17,549 20,322
	PROPERTY AND EQUIPMENT, net				12,411 15,329
	NOTE RECEIVABLE FROM AFFILIATE				8,800 11,655
	RESTRICTED CASH				
	INVESTMENT IN AFFILIATE				2,877 2,722
	OTHER ASSETS				2,109 750
	Total assets				401 833
	LIABILITIES AND SHAREHOLDERS' EQUITY				\$ 44,147 \$
51,611	LIABILITIES: Current portion of long-term debt and capital lease obligations				\$ 1,482 \$ 995
	Trade accounts payable				3,373 2,838
	Accrued expenses				7,219
	Total current liabilities				5,300
	LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion				12,074 9,133
	DEFERRED INCOME				3,436 3,663
1,540	COMMITMENTS AND CONTINGENCIES (Notes 8 and 10)				2,210
	SHAREHOLDERS' EQUITY: Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding				-- --
	Common stock, \$0.001 par value; 40,000,000 shares authorized; 18,354,454 and 18,143,409 shares issued at September 30, 2002 and December 31, 2001, respectively; and 18,268,154 and 18,057,109 outstanding at September 30, 2002 and December 31, 2001, respectively				18 18
	Additional paid-in capital				52,083 51,942
	Accumulated deficit				(24,486)
	Accumulated other comprehensive loss				(433) (1,113)
	Treasury stock at cost, 86,300 shares at September 30, 2002 and December 31, 2001				(85) (85)
	Total shareholders' equity				27,097 36,605
	Total liabilities and shareholders' equity				\$ 44,147 \$ 51,611

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 30, September 30,	Nine Months Ended 2001	September 2002	September 2001
	2002	2001	2002	2001
----- REVENUES: Gross service				
fee revenue	\$ 8,583	\$ 26,289	\$ 33,571	\$ 10,312
10,312	26,289	33,571	10,312	26,289
revenue, affiliate (Note 8)	1,722	460	1,722	460
4,862	460	4,862	460	4,862
Total gross service fee revenue	10,305	10,772	31,151	34,031
Less pass-through charges	783	1,483	2,973	4,084
Net service fee revenue	9,522	9,289	28,178	29,947
Other net revenue	497	--	--	--
Total net revenues	9,522	9,289	28,178	30,444
----- COSTS OF REVENUES: Cost of net service fee				
revenue	5,797	5,755	17,552	19,583
19,583	5,797	5,755	17,552	19,583
Cost of other revenue	(627)	(568)	(627)	(568)
Total costs of net revenues	5,797	5,128	17,552	19,015
Gross profit	3,725	4,161	10,626	11,429
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,669	5,226	20,636	17,456
SEVERANCE AND OTHER TERMINATION COSTS (Note 9)	1,248	--	1,248	--
ASSET IMPAIRMENTS (Note 7)	922	--	922	--
OTHER	(500)	(4,780)	(500)	(4,780)
Loss from operations	(5,114)	(565)	(12,180)	(1,247)
EQUITY IN EARNINGS OF AFFILIATE	265	--	1,163	--
INTEREST INCOME, NET	155	112	688	494
Loss before income taxes	(4,694)	(453)	(10,329)	(753)
INCOME TAX BENEFIT	--	--	--	11
NET LOSS	(4,694)	(453)	(10,329)	(742)
NET LOSS PER SHARE:				
Basic and diluted	\$ (0.26)	\$ (0.03)	\$ (0.57)	\$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: Basic and diluted	18,268	18,079	18,201	17,986

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,	2002	2001	
----- CASH FLOWS FROM OPERATING ACTIVITIES: Net loss			
\$(10,329)	\$ (742)		Adjustments to reconcile net loss to net cash provided
			by (used in) operating activities: Depreciation and amortization
	4,607	4,720	Asset impairments
		922	Deferred income taxes
		109	Allowances for doubtful accounts
	(29)	160	Equity in earnings of affiliate
	(1,163)		Non-cash compensation expense
	28	696	Gain on sale of distribution facility
(5,476)			Changes in operating assets and liabilities: Accounts receivable
	26	703	Prepaid expenses and other current assets
	1,227	5,362	Accounts payable, accrued expenses and deferred income
	1,720	(3,728)	Net cash provided by (used in) operating activities
	(2,991)	1,804	----- CASH FLOWS FROM INVESTING ACTIVITIES: Purchases of property and equipment
	(2,470)		Increase in restricted cash
	(154)	(2,742)	(Loans to) proceeds from affiliate, net
	2,855	(8,800)	Equity investment in affiliate
		(750)	Proceeds from sale of distribution facility, net
		9,937	Net cash provided by (used in) investing activities
(4,825)			----- CASH FLOWS FROM FINANCING ACTIVITIES: Payments on long-term debt and capital lease obligations
	(845)	(355)	Purchase of treasury stock
		(85)	Proceeds from issuance of common stock
	113	159	Proceeds from debt
		325	Net cash used in financing activities
	(407)	(281)	----- EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS
	124	29	NET DECREASE IN CASH AND CASH EQUIVALENTS
	(2,058)	(3,273)	CASH AND CASH EQUIVALENTS, beginning of period
	10,669	18,143	CASH AND CASH EQUIVALENTS, end of period
	\$ 8,611	\$ 14,870	=====
	===== SUPPLEMENTAL CASH FLOW INFORMATION Non-cash investing and financing activities: Fixed assets acquired under capital leases		
	\$ 779	\$ 2,472	=====

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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION

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

The unaudited interim condensed consolidated financial statements as of September 30, 2002, and for the three and nine months ended September 30, 2002 and 2001, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of September 30, 2002, its results of operations for the three and nine months ended September 30, 2002 and 2001 and its results of cash flows for the nine months ended September 30, 2002 and 2001. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data has been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or shareholders' equity. Included in selling, general and administrative expenses in the three and nine months ended September 30, 2002, are approximately \$0.8 and \$2.3 million, respectively, of technology infrastructure costs that were incurred in both periods but that were recorded as a component of cost of net service fee revenue in the three and nine months ended September 30, 2001. These technology costs were principally dedicated to the activities that generated service fee revenue under the transaction management services contract with Daisytek International Corporation ("Daisytek"), the Company's former parent corporation, which was terminated in November 2001 (see Note 6).

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

All intercompany accounts and transactions have been eliminated in consolidation.

INVESTMENT IN AFFILIATE

In 2001 the Company paid \$750,000 in cash for a 49% ownership interest in Business Supplies Distributors Holdings, LLC, ("Holdings") (see Notes 8, 10 and 11). The Company recorded its interest in Holdings' net income, which was allocated and distributed to the owners pursuant to the terms of Holdings' operating agreement, under the modified equity method, which resulted in the Company recording its allocated earnings of Holdings or 100% of Holdings' losses and the Company's proportionate share of Holdings' cumulative foreign currency translation adjustments.

In addition to the equity investment, at September 30, 2002 the Company had an \$8.8 million outstanding loan to Supplies Distributors, a subsidiary of Holdings, in the form of a Subordinated Demand Note (the "Note"). The Note can be decreased to \$8.0 million (previously \$6.5 million, see Note 11) subject to Holdings' compliance with the covenants of its senior loan facilities, as amended. Management believes that the Note, which is due on demand, will not be repaid in its entirety within the upcoming year and has therefore classified the entire balance as long-term. The Company evaluates each period whether the carrying value of the Note is impaired and whether it will be required to perform under its primary

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

guarantee obligation associated with the Supplies Distributors debt obligations (\$48.8 million at September 30, 2002) (see Notes 8 and 10). As of September 30, 2002, management believes the carrying value of the Note is recoverable and that no liability should be recorded in the consolidated financial statements of PFSweb associated with its guarantee obligation.

REVENUE AND COST RECOGNITION

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

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

Order management/customer care services relate primarily to taking customer orders for our client's products via various channels such as telephone call-center, electronic or facsimile. These services also entail addressing customer questions related to orders, as well as cross-selling/up-selling activities. Revenue is recognized as the services are rendered. Fees charged to the client are on a per transaction basis based on either (i) a pre-determined fee per order or fee per telephone minutes incurred, or (ii) are included in the product fulfillment service fees which are recognized on product shipment. The Company's cost of service fee revenue, representing the cost to provide the services described above, is recognized as incurred. Cost of service fee revenue also includes certain costs associated with technology collaboration and ongoing technology support which consist of creative website development and maintenance, web hosting, technology interfacing, and other ongoing programming activities. These activities are primarily performed to support the distribution and order management/customer care services and are recognized as incurred.

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

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

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

Other revenue of \$0.5 million for the nine months ended September 30, 2001 represents the fees charged to clients in conjunction with early contract terminations. Cost of other revenue for the three and nine months ended September 30, 2001 of \$0.6 million primarily reflects the benefit associated with the reversal of accruals made in the prior year for estimated client terminated costs that were determined this period to be in excess of actual costs incurred.

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.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The amortization of deferred revenue is included as a component of service fee revenue. The amortization of deferred implementation costs is included as a cost of service fee revenue. To the extent implementation costs exceed the fees received, excess costs are expensed as incurred.

The following summarizes the deferred implementation costs and revenues (in thousands):

September 30, 2002	December 31, 2001	
-----	-----	
		Deferred
		implementation costs
		Current
.....		
\$ 732	\$ 857	Non-current
.....		
253	655	-----
		----- \$ 985 \$ 1,512
=====	=====	
		Deferred implementation
		revenues Current
.....		
1,580	1,486	Non-current
.....		
370	988	-----
		----- \$ 1,950 \$ 2,474
=====	=====	

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 deferred income, respectively.

CONCENTRATION OF BUSINESS AND CREDIT RISK

The Company had three clients that each exceeded 10% of the Company's net service fee revenues for the nine months ended September 30, 2002. In total, these clients represented approximately 64% of the Company's net service fee revenue, with the Company's largest client representing 35% of net revenues, and Supplies Distributors and its affiliates (see Note 8) representing 17% of net revenues. Service fee revenue from Daisytek accounted for approximately 53% of the Company's total revenues for the nine months ended September 30, 2001, of which 19% was from the Daisytek subsidiaries that were the predecessors to Supplies Distributors. As of September 30, 2002, three clients accounted for approximately 49% of accounts receivable, of which 28% was due from the Company's largest client and 9.5% was due from Supplies Distributors and its affiliates. As of December 31, 2001, two clients accounted for approximately 36% of accounts receivable, of which 12% was due from Supplies Distributors and its affiliates.

As of September 30, 2002 and December 31, 2001, the Company had a subordinated note receivable, evidenced by the Note, of \$8.8 million and \$11.7 million, respectively, outstanding from Supplies Distributors.

RESTRICTED CASH

In conjunction with certain long-term debt and leases, as of September 30, 2002 and December 31, 2001, the Company had \$2.9 million and \$2.7 million of cash restricted, respectively, as collateral for letters of credit that secure these debt and lease obligations. The letters of credit expire at various dates through July 2004.

PROPERTY AND EQUIPMENT

The Company's property held under capital leases amounted to approximately \$4.6 million and \$5.5 million, net of accumulated amortization of approximately \$3.1 million and \$2.4 million, at September 30, 2002 and December 31, 2001, respectively.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. RECENTLY ISSUED ACCOUNTING PRINCIPLES

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

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

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 Company does not believe that early adoption of SFAS No. 146 would have had a material impact on the consolidated financial statements for the three and nine months ended September 30, 2002 and currently expects to adopt the provisions of this standard on January 1, 2003.

4. COMPREHENSIVE LOSS (IN THOUSANDS)

	Three Months Ended	Nine Months Ended	September 30,
	September 30,	September 30,	September 30,
	2002	2001	2002
	2002	2001	2001
Net loss			
.....			
\$ (4,694)	\$ (453)	\$ (10,329)	
\$ (742) Other comprehensive income (loss): Foreign currency translation adjustment			
.....		(186)	
438	680	(552)	
Comprehensive loss			
.....	\$		
(4,880)	\$ (15)	\$ (9,649)	\$
(1,294)	=====	=====	
	=====	=====	

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

5. NET LOSS PER COMMON SHARE AND COMMON SHARE EQUIVALENT

Basic and diluted net loss per common share attributable to PFSweb common stock were determined based on dividing the income or loss available to common stockholders by the weighted-average number of common shares outstanding. During the three and nine months ended September 30, 2002 and 2001, all outstanding options to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. As of September 30, 2002 and 2001 there were 4,953,814 and 1,924,646 options outstanding, respectively. There are no other potentially dilutive securities outstanding.

6. TRANSACTIONS WITH DAISYTEK

As of September 30, 2002, the Company had no receivables from Daisytek. As of December 31, 2001 the Company had receivables from Daisytek of approximately \$0.1 million.

In conjunction with the successful completion of an initial public offering of PFSweb common stock,

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

For the three and nine months ended September 30, 2001, the unaudited interim condensed consolidated financial statements include service fee revenues and cost of service fee revenues for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements.

Net service fee revenue charged to Daisytek under (i) the IBM Master Distributor Agreements (see Note 8), entered into during the quarter ended September 30, 1999, (ii) the transaction management services agreement with Daisytek, and (iii) certain subcontracted services, were \$3.0 million, net of \$0.2 million of pass-through charges, and \$16.1 million, net of \$0.5 million of pass-through charges, for the three and nine months ended September 30, 2001, respectively.

Effective November 2001, the Company is no longer a party to any agreement to provide services for Daisytek.

7. DISPOSITION AND IMPAIRMENT OF ASSETS

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

Pro forma net revenues and pro forma loss from operations for the three months ended September 30, 2001, assuming the transaction had occurred in January 2001, would have been \$8.0 million and \$(2.3) million, respectively. Pro forma net revenues and pro forma loss from operations for the nine months ended September 30, 2001, assuming the transaction had occurred in January 2001, would have been \$20.2 million and \$(10.9) million, respectively. The pro forma data do not give effect to any fees earned by PFSweb for services provided to Daisytek under a six-month transition services agreement entered into on May 25, 2001 or the effect of the \$5.8 million gain on the sale of the assets. Additionally, these pro forma adjustments do not consider certain infrastructure costs, such as operating costs associated with the information technology function, salaries of certain management and personnel, telephone and lease costs, and depreciation expense which supported this business but that will continue in the future. Because these ongoing costs were not considered, the pro forma adjustments to the loss from operations are not indicative of the overall margin earned under these transaction management services agreements.

In September 2002, the Company changed the manner in which certain warehouse and order

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

management transactions are processed. These changes eliminated the future service potential of selected software applications to the Company. Accordingly, the Company recorded a \$0.7 million asset impairment charge during the three months ended September 30, 2002. The Company has also abandoned certain distribution center assets and recorded a \$0.2 million asset impairment charge during the three months ended September 30, 2002.

8. SUPPLIES DISTRIBUTORS

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

On June 8, 2001, Daisytek notified the Company and IBM that it did not intend to renew these agreements upon their scheduled expiration dates. In July 2001, the Company and Inventory Financing Partners, LLC ("IFP") formed Holdings, and Holdings formed a wholly-owned subsidiary, Supplies Distributors ("Supplies Distributors") (see Note 11). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries Supplies Distributors of Canada, Inc. ("SDC") and Supplies Distributors S.A. ("SDSA"), a Belgium corporation. Supplies Distributors, SDSA, the Company and IBM entered into new Master Distributor Agreements to replace the prior agreements. Under these agreements, Supplies Distributors and SDSA act as master distributors of various IBM products and, pursuant to a transaction management services agreement between the Company and Supplies Distributors, the Company provides transaction management and fulfillment services to Supplies Distributors.

The Company made an equity investment of \$0.75 million in Holdings, which is included in investment in affiliate in the accompanying consolidated financial statements, for a 49% voting interest, and IFP made an equity investment of \$0.25 million in Holdings for a 51% voting interest. Certain officers and directors of the Company collectively owned a 49% non-voting interest in IFP (see Note 11). In addition to its equity investment in Holdings, the Company has also provided Supplies Distributors with a subordinated loan, evidenced by the Note, which, as of September 30, 2002, had an outstanding balance of \$8.8 million (see Note 2). In June 2002, Supplies Distributors repaid \$3.0 million to the Company, reducing the outstanding balance of the Note. The Note, which is classified as a note receivable from affiliate, accrues interest at a fluctuating rate per annum equal to the Company's cost of funds, as determined by the Company. For the three and nine months ended September 30, 2002, the Company charged interest at 10% and earned \$0.2 million and \$0.8 million, respectively, associated with the Note.

On September 26, 2001, Supplies Distributors purchased all of the stock of the BSD Companies for a purchase price of \$923,000. In conjunction with the purchase, BSD and Supplies Distributors were merged with Supplies Distributors being the surviving corporation. Effective December 31, 2001, BSD Canada and SDC were amalgamated, with SDC being the surviving corporation. On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") for the purpose of financing its distribution of IBM products. The facilities, which at inception included \$40 million for the U.S. operations and 20 million Euros (approximately \$19.6 million) for the European operations, were subsequently increased to \$45 million and 27 million Euros (approximately \$26.5 million), respectively, and extended through March 25, 2002.

On March 29, 2002, Supplies Distributors entered into amended credit facilities with IBM Credit and SDSA and BSD Europe entered into amended credit facilities with IBM Belgium. The asset based credit facility with IBM Credit provides financing for purchasing IBM inventory up to \$27.5 million through its expiration on March 29, 2003. The asset based credit facility with IBM Belgium provides up to 22 million Euros (approximately \$21.6 million) in financing for purchasing IBM inventory. The IBM

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2003. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb (see Note 10). Additionally, the Company is required to maintain a subordinated loan to Supplies Distributors of no less than \$8.0 million and a minimum shareholders' equity balance, as modified in November 2002 (see Note 11).

Concurrent with these amended agreements, Supplies Distributors entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to \$25 million of eligible accounts receivables in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. In Europe, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million Euros (approximately \$7.4 million) (previously 10 million Euros, see Note 11) of eligible accounts receivables. Borrowings under this agreement accrue interest at 8.5%, or on an adjusted basis as defined. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb (see Note 10). Additionally, the Company is required to maintain a subordinated loan to Supplies Distributors of no less than \$8.0 million (previously \$6.5 million, see Note 11) and may not maintain restricted cash of more than \$5.0 million as security for capital leases, and is restricted with regard to transactions with related parties, capital expenditures, indebtedness and changes to capital stock ownership structure.

Pursuant to the terms of the Company's transaction management services agreement with Supplies Distributors, the Company earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately \$1.7 million, net of \$0.1 million of pass-through charges, for the three months ended September 30, 2002 and \$4.7 million, net of \$0.1 million of pass-through charges, for the nine months ended September 30, 2002. Prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were \$1.7 million, net of \$0.2 million of pass-through charges, for the three months ended September 30, 2001 and \$6.0 million, net of \$0.5 million of pass-through charges, for the nine months ended September 30, 2001. As of September 30, 2002 and December 31, 2001, the Company has trade accounts receivables of \$0.7 million and \$0.9 million due from Supplies Distributors, respectively.

Pursuant to Holdings' operating agreement, Holdings 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. Notwithstanding the foregoing, no distribution could be made if, after giving effect thereto, the net worth of Holdings would be less than \$1.0 million. In May 2002, Holdings paid a \$0.2 million dividend to IFP. Under the terms of its credit agreements, Holdings is currently limited to annual cash dividends of \$0.6 million. The Company recorded \$0.3 million and \$1.2 million of equity in the earnings of

Holdings for the three and nine months ended September 30, 2002, respectively.
The

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Company's investment in Holdings includes the Company's proportionate share of cumulative foreign currency translation adjustments reflected in Holdings equity section, which, as of September 30, 2002, resulted in a decrease of \$0.2 million to the Company's accumulated other comprehensive loss.

Summarized financial information for Holdings as of September 30, 2002 is as follows (in thousands):

Cash and cash equivalents (including restricted cash of \$1,745)	\$ 2,578
Accounts receivable, net of allowance for doubtful accounts of \$152	28,110
Inventories, net	37,193
Prepaid expenses	684
Other assets, net	455

Total assets	\$69,020
	=====
Trade accounts payable	\$ 3,611
Accrued expenses	1,901
Debt (guaranteed by PFSweb)	48,823
Other debt	3,070
Note payable to affiliate	8,800
Members' capital:	
Capital contributions	1,000
Retained earnings	1,417
Unrealized gain on investment	260
Accumulated other comprehensive loss	138

Total members' capital	2,815

Total liabilities and members' capital	\$69,020
	=====

Summarized operating information for Holdings for the three and nine months ending September 30, 2002 is as follows (in thousands):

September 30, 2002 -----		
----- Three Months		Nine Months --
-----		-----
Net revenues		
.....		
\$ 57,614	\$ 163,653	Cost of goods sold
.....	54,423	
154,274	-----	
Gross profit		
.....		
3,191	9,379	Selling, general and administrative expenses
1,748		
4,975	-----	
Income from operations		
.....	1,443	
4,404	Interest expense	
.....	843	
2,424	-----	
Income before income taxes		
.....	600	1,980
Income tax expense		
.....	201	
754	-----	Net
income		
.....		
\$ 399	\$ 1,226	=====
		=====

9. 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 \$0.2 million was paid during September. The remaining \$1.0 million is included in accrued expenses, of which \$0.7 million is expected to be paid during the December 2002 quarter and the remainder paid by March 2004. The Company did not finalize all restructuring activities as of September 30, 2002, and expects to incur an additional amount totaling \$0.5 million to \$1.0 million of restructuring charges during the December 2002 and March 2003 quarters.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES

The Company has provided collateralized guarantees to secure the repayment of Supplies Distributors' credit facilities. As of September 30, 2002 the outstanding balance of the credit facilities guaranteed by the Company was approximately \$48.8 million. These guarantees expire concurrently with the expiration of the underlying credit agreements. To the extent Supplies Distributors or its subsidiaries fails to comply with its covenants, including its monthly financial covenant requirements, and the lenders accelerate the repayment of the credit facility obligations, Supplies Distributors or its subsidiaries would be required to repay all amounts outstanding thereunder. In such event, the Company would be obligated to perform under those guarantees and repay, to the extent Supplies Distributors or its subsidiaries was unable to, Supplies Distributors' or its subsidiaries credit facility obligations. Additionally, if the Company was unable to maintain the Company's required level of stockholders' equity (see Note 11), or if the Company was to violate any of the restricted transactions pursuant to the IBM Credit, IBM Belgium, or Congress agreements (see Notes 8 and 11), the Company could also be obligated to perform under these guarantees. Any requirement to perform under the Company's guarantees would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company will have the financial ability to repay all of such guaranteed obligations. In addition, in the event Supplies Distributors or its subsidiaries is, or would be, in default of its obligations under its credit facilities, the Company is restricted from receiving any payment of its Note and such event would also have a material adverse impact upon the Company's financial condition and results of operations. Furthermore, the Company is obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders if Supplies Distributors or its subsidiaries is 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. The Company has also provided a guarantee of the obligations of Supplies Distributors and its subsidiaries to IBM, excluding the trade payables that are financed by IBM Credit. No liabilities have been recorded in the accompanying financial statements for these guarantee obligations (see Note 11).

11. SUBSEQUENT EVENT

Effective October 1, 2002, the Company purchased the remaining 51% interest in Holdings from IFP for \$0.3 million. As a result of the purchase, in the future the Company will consolidate 100% of Holdings' financial position and results of operations into the Company's consolidated financial statements. Pro forma net revenues and pro forma net loss for the three months ended September 30, 2002, assuming the transaction had occurred in January 2002, would have been \$65.5 million and \$(4.4) million, respectively. Pro forma net revenues and pro forma net loss for the nine months ended September 30, 2002, assuming the transaction had occurred in January 2002, would have been \$187.1 million and \$(9.9) million, respectively. The pro forma data do not give effect to an approximate \$0.3 million extraordinary gain expected to result from 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. The purchase price allocation is preliminary and subject to change.

In November, 2002, Supplies Distributors amended its credit facility with IBM Credit. The amendments modify certain financial covenants, such as annualized revenue to working capital and total liabilities to tangible net worth, as defined. The amendments also increase the Company's minimum required subordinated loan to Supplies Distributors to \$8.0 million and reduce the Company's minimum shareholders' equity amount to \$24.0 million as of September 30, 2002, \$20.0 million for the period from October through December 2002, and \$18.0 million for the period from January through March 2003. Also, in November, 2002, SDSA modified its factoring agreement with Fortis to reduce the maximum factoring amount to 7.5 million Euros (approximately \$7.4 million).

PFSWEB, INC. AND SUBSIDIARIES

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

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

FORWARD-LOOKING INFORMATION

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

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

and renew its working capital indebtedness facilities;

- o the continued listing of our common stock on the NASDAQ SmallCap Market; and
- o our relationship with and separation from Daisytek, our former parent corporation.

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

OVERVIEW

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

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended	Nine Months		
	Ended September 30,	September		
	30,	30,		
	-----	-----		
	2002	2001	2002	
	-----	-----	-----	
2001	-----	-----	-----	-----

Gross service fee revenue	90.1%			
.....				
111.0% 93.3% 110.3%				
Gross service fee revenue, affiliate	18.1	5.0	17.3	1.5
.....				

Total gross service fee revenue	108.2	116.0		
.....				
110.6 111.8				
Pass-through charges				
.....				
(8.2) (16.0) (10.6) (13.4)				

Net service fee revenue				
.....				
100.0 100.0 100.0 98.4				
Other net revenue				

```

.....
-- -- -- 1.6 -----
----- ----- Total net
revenues
..... 100.0
100.0 100.0 100.0 Cost of net
service fee revenue (as % of
net service fee revenue)
..... 60.9
62.0 62.3 65.4

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PFSWEB, INC. AND SUBSIDIARIES

	Three Months Ended		Nine Months Ended	
	September 30, 2002		September 30, 2001	
	2002	2001	2002	2001
Cost of other net revenue (as % of total net revenue)				
(6.7) -- (1.9)				
--- Total costs of net revenues	60.9	55.2	62.3	62.5
..... Gross profit				
..... 39.1				
44.8 37.7 37.5 Selling, general and administrative expenses	44.8	37.7	37.5	70.0
73.2 57.3 Severance and other termination costs	73.2	57.3	13.1	4.4
..... 9.7 -- 3.3				
--- Other				
.....				
-- (5.4) -- (15.7)				
----- Loss from operations				
..... (53.7) (6.1)				
(43.2) (4.1) Equity in earnings of affiliate			2.8	4.1
..... Interest income, net			1.6	1.2
..... 1.6 1.2 2.4				
1.7 ----- Loss before income taxes				
..... (49.3) (4.9)				
(36.7) (2.4) Income tax benefit				
.....				
----- Net loss				
.....				
(49.3)% (4.9)% (36.7)% (2.4)% =====				
===== ===== =====				

RESULTS OF OPERATIONS FOR THE INTERIM PERIODS ENDED SEPTEMBER 30, 2002 AND 2001

Net Service Fee Revenue (including service fee revenue, affiliate). Net service fee revenue was \$9.5 million for the three months ended September 30, 2002 as compared to \$9.3 million for the three months ended September 30, 2001, an increase of \$0.2 million or 2.5%. The increase in net service fee revenue over the prior period was due to the impact of new service contract relationships of \$1.1 million and the increase in net service fee revenue from existing clients of \$0.7 million, partially offset by the impact of terminated contracts in calendar year 2001 of \$1.6 million, primarily the Daisytek contracts. Net service fee revenue was \$28.2 million for the nine months ended September 30, 2002 as compared to \$29.9 million for the nine months ended September 30, 2001, a decrease of \$1.7 million or 5.9%. The decrease in net service fee revenue over the prior period was due to the impact of certain client terminations in calendar year 2001 of \$11.5 million, primarily the Daisytek contracts, partially offset by an increase in net service fee revenue from existing clients of \$6.3 million and the impact of new service contract relationships of \$3.5 million. Net service fee revenue for the three and nine months ended September 30, 2002, included \$0.3 million and \$1.2 million, respectively, of client relationships terminated in the current fiscal year. For the three and nine months ended September 30, 2002, net service fee revenue from existing clients increased from the prior periods, primarily related to the addition of our largest client offset by decreases in the net service fee revenues earned from the business activity with Supplies Distributors versus its predecessor company.

In conjunction with the \$10.9 million sale of a distribution facility to Daisytek in May 2001 (discussed below in "Liquidity and Capital Resources"), we terminated certain of our transaction management services agreements entered into between us, Daisytek and a Daisytek subsidiary. Concurrently with the closing of the facility sale, we entered into a six-month transition services agreement to provide Daisytek with certain transitional and information technology services. The net impact of the changes in our services provided to Daisytek, excluding the business activity previously provided to BSD, another Daisytek subsidiary, was a reduction in net service fee revenue of \$1.3 million

and \$10.1 million for the three and nine months ended September 30, 2002, respectively.

Pursuant to the terms of the Company's transaction management services agreement with Supplies Distributors, the Company earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately \$1.7 million, net of \$0.1 million of pass-through charges, for the three months ended September 30, 2002 and \$4.7 million, net of \$0.1 million of pass-through charges, for the nine months ended September 30, 2002. Prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were \$1.7 million, net of \$0.2 million of pass-through charges, for the three months ended September 30, 2001 and \$6.0 million, net of \$0.5 million of pass-through charges, for the nine months ended September 30, 2001. For the three and nine months ended September, 2001, our revenue was negatively impacted by lower than anticipated IBM related activity due to transition to Supplies Distributors from Daisytek but was benefited by approximately \$0.8 million of service fee adjustments resulting from the finalization of the Daisytek contract.

PFSWEB, INC. AND SUBSIDIARIES

Due to the consolidation of Holdings (see "Supplies Distributors" below), in the future we will also report product revenue arising from the sale by Supplies Distributors of IBM products. Based on Supplies Distributors' current run rate, we currently expect to report product revenue of approximately \$60 million on a quarterly basis.

Other Revenue. Other revenue of \$0.5 million for the nine months ended September 30, 2001 represents the fees charged to clients in conjunction with early contract terminations.

Cost of Net Service Fee Revenue. Cost of net service fee revenue was \$5.8 million for the three months ended September 30, 2002 and September 30, 2001. The resulting service fee gross profit was \$3.7 million, or 39.1% of net service fee revenue, during the three months ended September 30, 2002 as compared to \$3.5 million, or 38.0% of net service fee revenue for the three months ended September 30, 2001. The increase in gross profit is primarily a result of the increase in service fee revenue. Our gross profit as a percent of net service fee revenue also increased in the current period because the gross profit percentage earned on certain contracts terminated in calendar year 2001 was lower than the contracts we currently operate. Cost of net service fee revenue was \$17.6 million for the nine months ended September 30, 2002, as compared to \$19.6 million during the nine months ended September 30, 2001, a decrease of \$2.0 million or 10.4%. The resulting service fee gross profit was \$10.6 million or 37.7% of net service fee revenue, during the nine months ended September 30, 2002 as compared to \$10.4 million, or 34.6% of net service fee revenue for the nine months ended September 30, 2001. Our gross profit as a percent of net service fee revenue increased in the current period because the gross profit percentage earned on certain contracts terminated in calendar year 2001 was lower than the contracts we currently operate. This was partially offset by \$0.4 million of costs in excess of start up fees incurred for a new client implementation during the nine months ended September 30, 2002. For the three and nine months ended September, 2001, our gross profit margin was negatively impacted by lower than anticipated IBM related activity due to transition to Supplies Distributors from Daisytek but was benefited by approximately \$0.8 million of service fee adjustments resulting from the finalization of the Daisytek contract for which the related service activities were performed in earlier periods.

Due to the consolidation of Holdings (see "Supplies Distributors" below), in the future we will also report cost of product revenue arising from the sale by Supplies Distributors of IBM products. Based on Supplies Distributors' current run rate, we currently expect to report cost of product revenue of approximately \$57 million on a quarterly basis.

Cost of Other Net Revenue. Cost of other revenue for the three and nine months ended September 30, 2001 of (\$0.6) million primarily reflects the benefit associated with the reversal of accruals made in prior years for estimated client termination costs that were determined during the September 2001 period to be in excess of actual costs incurred.

Selling, General and Administrative Expenses. SG&A expenses were \$6.7 million for the three months ended September 30, 2002, or 70.0% of revenues, as compared to \$5.2 million, or 56.3% of revenues, for the three months ended September 30, 2001. SG&A expenses were \$20.6 million for the nine months ended September 30, 2002, or 73.2% of revenues, as compared to \$17.5 million, or 57.3% of revenues, for the nine months ended September 30, 2001. SG&A expenses increased over the prior year due to approximately \$0.8 million and \$2.3 million for the three and nine months ended September 30, 2002, respectively, of technology infrastructure costs that were incurred in both periods but that were recorded as a component of cost of service fee revenue in the prior year. In addition, SG&A expenses for the three and nine months ended September 30, 2001, were benefited by the favorable resolution of certain accounts and VAT receivables. These technology costs were principally dedicated to the activities that generated service fee revenue under the transaction management services contract with Daisytek, which was terminated in November 2001. In future periods, as a result of personnel reductions and certain asset write-offs recorded during the three months ended September 30, 2002, we believe our SG&A expenses will decline by approximately \$1.5 million per quarter. Due to the consolidation of Holdings (see "Supplies Distributors" below), we will also reclassify certain costs previously characterized as cost of service fee revenue to SG&A.

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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. We did not finalize all restructuring activities as of September 30, 2002, and thus expect to incur an additional amount totaling \$0.5 million to \$1.0 million of restructuring charges during the December 2002 and March 2003 quarters.

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 Holdings earnings. Due to the consolidation of Holdings (see "Supplies Distributors" below), in the future we will not report equity in earnings of affiliate.

Interest Income. Interest income was \$0.2 million for the three months ended September 30, 2002 as compared to interest income of \$0.1 million for the three months ended September 30, 2001. Interest income was \$0.7 million for the nine months ended September 30, 2002 as compared to interest income of \$0.5 million for the nine months ended September 30, 2001. The increase in interest income is attributable to the impact of higher interest rates charged on our subordinated loan to Supplies Distributors partially offset by lower interest rates earned by our cash and cash equivalents and higher interest expense due to an increase in our long-term debt and capital lease obligations. Due to the consolidation of Holdings (see "Supplies Distributors" below), in the future we will report a higher consolidated interest expense resulting from interest paid under Holdings' credit facilities.

Income Taxes. For the three and nine months ended September 30, 2002, we did not record any tax benefits associated with our net loss since we have not established a sufficient history of earnings for our operations. A valuation allowance has been provided for our net deferred tax assets as of September 30, 2002, which are primarily related to our net operating loss carryforwards. For the nine months ended September 30, 2001, we recorded an income tax benefit associated with the true-up of previously estimated tax attributes for fiscal 2000, which were due to us since our prior results were included in Daisytek's consolidated tax return, offset by an income tax provision associated with a pre-tax income from our Canadian operations. We did not record an income tax benefit for our European pre-tax losses in the current or prior period. Due to the consolidation of Holdings (see "Supplies Distributors" below), in the future we anticipate that we will record an income tax provision associated with Holdings' Canadian and European results of operations.

SUPPLIES DISTRIBUTORS

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

On June 8, 2001, Daisytek notified us and IBM that it did not intend to renew these agreements upon their scheduled expiration dates. In July 2001, we and Inventory Financing Partners, LLC ("IFP") formed Business Supplies Distributors Holdings, LLC ("Holdings"), and Holdings formed a wholly-owned subsidiary, Supplies Distributors ("Supplies Distributors"). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries Supplies Distributors of Canada, Inc. ("SDC") and Supplies Distributors S.A. ("SDSA"), a Belgium corporation. Supplies Distributors, SDSA, IBM and PFSweb entered into new Master Distributor Agreements to replace the prior agreements. Under the new agreements, Supplies Distributors

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and SDSA act as master distributors of various IBM products and, pursuant to a transaction management services agreement between us and Supplies Distributors, we provide transaction management and fulfillment services to Supplies Distributors.

We made an equity investment of \$0.75 million in Holdings for a 49% voting interest, and IFP made an equity investment of \$0.25 million in Holdings for a 51% voting interest. Certain officers and directors of PFSweb owned a 49% non-voting interest in IFP. In addition to its equity investment in Holdings, we have also provided Supplies Distributors with a subordinated loan, which, as of September 30, 2002, had an outstanding balance of \$8.8 million and accrued interest at approximately 10%. During June 2002, Supplies Distributors repaid us \$3.0 million, reducing the balance of our subordinated loan to this level. The balance can be decreased to \$8.0 million subject to Supplies Distributors' financing requirements and compliance with the covenants of its senior loan facilities, as amended.

On September 26, 2001, Supplies Distributors purchased all of the stock of the BSD Companies for a purchase price of \$923,000. In conjunction with the purchase, BSD and Supplies Distributors were merged with Supplies Distributors being the surviving corporation. Effective December 31, 2001, BSD Canada and SDC were amalgamated, with SDC being the surviving corporation. On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") for the purpose of financing its distribution of IBM products. The facilities, which at inception included \$40 million for the U.S. operations and 20 million Euros (approximately \$19.6 million) for the European operations, were subsequently increased to \$45 million and 27 million Euros (approximately \$26.5 million), respectively, and extended through March 25, 2002. The Company provided a collateralized guaranty to secure the repayment of these credit facilities.

On March 29, 2002, Supplies Distributors entered into amended credit facilities with IBM Credit and SDSA and BSD Europe entered into amended credit facilities with IBM Belgium. The asset based credit facility with IBM Credit provides financing for purchasing IBM inventory up to \$27.5 million through its expiration on March 29, 2003. The asset based credit facility with IBM Belgium provides up to 22 million Euros (approximately \$21.6 million) in financing for purchasing IBM inventory. The IBM Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2003. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a minimum subordinated loan balance due from Supplies Distributors and a minimum shareholders' equity balance. In November, 2002, Supplies Distributors amended the credit facility with IBM Credit. The amendments modify certain financial covenants, such as annualized revenue to working capital and total liabilities to tangible net worth, as defined. The amendments also increase our minimum required subordinated loan to Supplies Distributors to \$8.0 million and reduce our minimum shareholders' equity amount to \$24.0 million as of September 30, 2002, \$20.0 million for the period from October through December 2002, and \$18.0 million for the period from January through March 2003. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or SDSA under these facilities if Supplies Distributors or SDSA is 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.

Concurrent with these amended agreements, Supplies Distributors entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to \$25 million of eligible accounts receivables in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. In Europe, SDSA entered into a two year factoring

PFSWEB, INC. AND SUBSIDIARIES

agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring of eligible accounts receivables. In November, 2002, SDSA amended the factoring agreement with Fortis to reduce the maximum factoring amount to 7.5 million Euros (approximately \$7.4 million), from its previous maximum of 10 million Euros (approximately \$9.8 million). Borrowings under this agreement accrue interest at 8.5%, or on an adjusted basis as defined. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan of no less than \$6.5 million to Supplies Distributors and may not maintain restricted cash of more than \$5.0 million as security for capital leases, and are restricted with regard to transactions with related parties, capital expenditures, indebtedness and changes to capital stock ownership structure. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors under the Congress facility if Supplies Distributors is 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. PFS has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Pursuant to the terms of our transaction management services agreement with Supplies Distributors, we earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately \$1.7 million, net of \$0.1 million of pass-through charges, for the three months ended September 30, 2002 and \$4.7 million, net of \$0.1 million of pass-through charges, for the nine months ended September 30, 2002. Prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were \$1.7 million, net of \$0.2 million of pass-through charges, for the three months ended September 30, 2001 and \$6.0 million, net of \$0.5 million of pass-through charges, for the nine months ended September 30, 2001. As of September 30, 2002 and December 31, 2001 we had trade accounts receivables of \$0.7 million and \$0.9 million due from Supplies Distributors, respectively.

We have historically recorded our interest in Holdings' net income, which was allocated and distributed to the owners pursuant to the terms of Holdings' operating agreement, under the modified equity method, which resulted in us recording our allocated earnings of Holdings or 100% of Holdings' losses and our proportionate share of Holdings' cumulative foreign currency translation adjustments. Pursuant to Holdings' operating agreement, Holdings 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. Notwithstanding the foregoing, no distribution could be made if, after giving effect thereto, the net worth of Holdings would be less than \$1.0 million. In May 2002, Holdings paid a \$0.2 million dividend to IFP. Under terms of the credit agreements described above, Holdings is currently limited to annual cash dividends of \$0.6 million. We recorded \$0.3 million and \$1.2 million of equity in the earnings of Holdings for the three and nine months ended September 30, 2002, respectively. Our investment in Holdings includes our proportionate share of cumulative foreign currency translation adjustments reflected in Holdings equity section, which, as of September 30, 2002, resulted in a decrease of \$0.2 million to our accumulated other comprehensive loss.

PFSWEB, INC. AND SUBSIDIARIES

Summarized financial information for Holdings as of September 30, 2002 is as follows (in thousands):

Cash and cash equivalents (including restricted cash of \$1,745)	\$ 2,578
Accounts receivable, net of allowance for doubtful accounts of \$152	28,110
Inventories, net	37,193
Prepaid expenses	684
Other assets, net	455

Total assets	\$69,020
	=====
Trade accounts payable	\$ 3,611
Accrued expenses	1,901
Debt (guaranteed by PFSweb)	48,823
Other debt	3,070
Note payable to affiliate	8,800
Members' capital:	
Capital contributions	1,000
Retained earnings	1,417
Unrealized loss on investment	260
Accumulated other comprehensive loss	138

Total members' capital	2,815

Total liabilities and members' capital	\$69,020
	=====

Summarized operating information for Holdings for the three and nine months ended September 30, 2002 is as follows (in thousands):

September 30, 2002	-----	-----	-----
	Three Months	Nine Months	
	-----	-----	-----
Net revenues			
.....			
\$ 57,614	\$ 163,653	Cost of goods sold	
.....	54,423		
154,274	-----	Gross profit	
3,191	9,379	Selling, general and administrative expenses	1,748
4,975	-----	Income from operations	
		1,443	
		4,404	Interest expense
		843	
2,424	-----	Income before income taxes	
		600	1,980
		Income tax expense	
		201	
754	-----	Net income	
\$ 399	\$ 1,226	=====	=====

In October 2002, we purchased the remaining 51% interest in Holdings from IFP for \$0.3 million. In the future, as a result of the purchase, we will consolidate 100% of Holdings 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 the transaction had occurred in January 2002, would have been \$65.5 million and \$(4.4) million, respectively. Pro forma net revenues and pro forma net loss for the nine months ended September 30, 2002, assuming the transaction had occurred in January 2002, would have been \$187.1 million and \$(9.9) million, respectively. The pro forma data do not give effect to an approximate \$0.3 million extraordinary gain expected to result from 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. The purchase price allocation is preliminary and subject to change.

LIQUIDITY AND CAPITAL RESOURCES

On May 25, 2001, we completed the sale of certain assets to Daisytek pursuant to an Asset Purchase Agreement (the "Purchase Agreement"). Under the Purchase Agreement, we transferred and sold to Daisytek certain distribution and fulfillment assets, including equipment and fixtures, that were previously used by us to provide outsourcing services to Daisytek. Daisytek also assumed certain related equipment leases and a warehouse lease and hired certain employees who were associated with the warehouse facility. The consideration payable under the Purchase Agreement of \$11.0 million included a termination by us and

PFSWEB, INC. AND SUBSIDIARIES

Daisytek of certain transaction management services agreements previously entered into between us and Daisytek and a Daisytek subsidiary. Proceeds of \$10.9 million were received for assets with an approximately \$4.5 million net book value with a resulting \$5.8 million gain, after closing costs of \$0.6 million. Concurrently with the closing of the asset sale, we and Daisytek also entered into a six-month transition services agreement, which terminated in November 2001, under which we provided Daisytek with certain transitional and information technology services.

Net cash used in operating activities was \$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 and other current assets of \$1.2 million. The increase in accrued expenses relate primarily to accrued severance costs. Of the \$1.2 million severance and other termination costs recorded in the September 2002 quarter, \$0.2 million was paid in September. Of the remaining \$1.0 million, we expect to be pay \$0.7 million in the December quarter and the remainder by March 2004. The decrease in other current assets primarily relates to the collection of VAT receivables associated with our European operations. Net cash provided by operating activities was \$1.8 million for the nine months ended September 30, 2001, and primarily resulted from cash used to fund operating losses and the net impact of decreases in prepaid expenses and other current assets of \$5.4 million, accounts payable and accrued expenses of \$3.7 million and accounts receivable of \$0.7 million. The prior year decrease in other current assets primarily relates to the collection of VAT receivables associated with our European operations. The decrease in accounts payable is primarily attributable to the remittance of the VAT monies due to one of our clients and the reversal of client termination reserves, previously reflected in prior years' costs, and of deferrals applicable to the finalization of the Daisytek related contract, for which the related activities occurred in earlier periods.

Net cash provided by investing activities for the nine months ended September 30, 2002 totaled \$1.2 million, representing the net repayment of \$2.9 million by Supplies Distributors of our subordinated loan, which totaled \$8.8 million at September 30, 2002, offset by capital expenditures of \$1.5 million and a \$0.2 million increase in our restricted cash balance to \$2.9 million, which is to secure our long-term debt and lease financing. Net cash used by investing activities totaled \$4.8 million for the nine months ended September 30, 2001, which primarily included \$2.5 million of capital expenditures, the establishment of a restricted cash balance of \$2.7 million, a subordinated loan to Supplies Distributors of approximately \$8.8 million, and an equity investment of \$0.8 million in Supplies Distributors offset by \$9.9 million in net proceeds from the sale of the distribution facility. 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 \$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 plan. Net cash used in financing activities was approximately \$0.3 million for the nine months ended September 30, 2001, representing payments on our capital lease obligations offset by the proceeds from issuance of common stock.

During the nine months ended September 30, 2002, our working capital decreased to \$5.5 million from \$11.2 million at December 31, 2001, primarily due to the funding of operations and capital expenditures, offset by the repayment from Supplies Distributors of \$2.9 million against our subordinated loan. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including utilizing capital or operating leases, establishing our own credit facility, entering into asset based lending or factoring programs, or transferring a portion of our subordinated loan balances, due from Supplies Distributors, to third-parties. In

conjunction with 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 and funds generated from operations (including our anticipated revenue

PFSWEB, INC. AND SUBSIDIARIES

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 and our lease obligations, and additional subordinated loans to Supplies Distributors, if necessary, for at least the next twelve months.

The following is a schedule of our total contractual cash and other obligations, which is comprised of operating leases, other obligations, which represents \$0.1 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 OPERATING LONG-TERM CONTRACTUAL LEASES AND DEBT AND CASH AND OTHER CAPITAL OTHER OBLIGATIONS LEASES OBLIGATIONS -----				
Twelve Months Ended September 30, 2003				
.....	\$ 6,072	\$ 1,755	\$ 7,827	2004
.....	4,940	1,519	6,459	2005
.....	2,785	905	3,690	2006
.....	2,785	720	3,505	2007
.....	1,902	425	2,327	Thereafter
.....	1,219	283	1,502	-----
--- Total contractual cash obligations \$ 19,703	\$ 5,607	\$ 25,310	=====
	=====	=====		

In support of certain debt instruments and leases, as of September 30, 2002, we had \$2.9 million of cash restricted in the form of letters of credit. The letters of credit expire at various dates through July 2004. As described above, we have provided collateralized guarantees to secure the repayment of Supplies Distributors' credit facilities. As of September 30, 2002, the outstanding balance of the credit facilities guaranteed by PFSweb was approximately \$48.8 million. These guarantees expire concurrently with the expiration of the underlying credit agreements. To the extent Supplies Distributors or its subsidiaries fails to comply with its covenants, including its monthly financial covenant requirements, and the lenders accelerate the repayment of the credit facility obligations, Supplies Distributors or its subsidiaries would be required to repay all amounts outstanding thereunder. In such event, we would be obligated to perform under those guarantees and repay, to the extent Supplies Distributors or its subsidiaries was unable to, Supplies Distributors' or its subsidiaries credit facility obligations. Additionally, if we were unable to maintain our required level of stockholders' equity, or if we were to violate any of the restricted transactions pursuant to the IBM Credit, IBM Belgium, or Congress agreements, we could also be obligated to perform under these guarantees. Any requirement to perform under our guarantees would have a material adverse impact on our financial condition and results of operations and no assurance can be given that we will have the financial ability to repay all of such guaranteed obligations. In addition, in the event Supplies Distributors or its subsidiaries is, or would be, in default of its obligations under its credit facilities, we are restricted from receiving any payment of our subordinated loans and such event would also have a material adverse impact upon our financial condition and results of operations. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders if Supplies Distributors or its subsidiaries is 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. PFS has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit. No liabilities have been recorded in the accompanying financial statements for these guarantee obligations. No assurance can be given that Supplies Distributors will be able to renew their credit facilities upon their expiration in March 2003. The failure to renew these credit facilities will require Supplies Distributors to obtain replacement financing to repay these facilities. No assurance can be given that Supplies Distributors will be able to obtain replacement financing or repay its existing credit facilities. In the event Supplies Distributors is unable to do so, the Company may be called upon to repay such credit facilities under the terms of its guaranty. No assurance can be given that the Company will

be able to do so. As a result, the failure of Supplies Distributors to renew its existing credit facilities will have a material adverse effect upon Holdings, Supplies Distributors and PFSweb and their respective financial condition and operations. We do not have any other material commercial commitments.

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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 \$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 both our North American and European operations. We believe that as we add revenue, and based upon our current cost structure, we will be able to cover our reduced infrastructure and public company 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. No assurance can be given that we can achieve such operating levels, or that, if achieved, we will be profitable in any particular fiscal period.

In the future, we may attempt to acquire other businesses 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.

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 NASDAQ Marketplace Rule 4450(a)(5), 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. However, as compared to the 90-day grace period provided by the NASDAQ National Market, the SmallCap Market currently has a longer bid price minimum grace period of 180 days from receipt of NASDAQ Delisting Notification (February 14, 2002 for the Company). This grace period extended us through August 13, 2002.

Due to our compliance with the initial listing requirements for the NASDAQ SmallCap Market, on August 14, 2002 we have been provided an additional 180 day grace period, or until February 10, 2003 to regain compliance. We can, however, provide no assurance as to our ability to maintain compliance with the core listing standards and our continued listing in the NASDAQ SmallCap Market.

SEASONALITY

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

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

INFLATION

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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)." We do not believe that early adoption of SFAS No. 146 would have had a material impact on our consolidated financial statements for the three and nine months ended September 30, 2002 and we currently expect to adopt the provisions of this standard in the first quarter of 2003.

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, 2001 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

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

Foreign Exchange Risk

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

PFSWEB, INC. AND SUBSIDIARIES

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

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial and Accounting Officer, within 90 days prior to the filing date of this report. Based upon the evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

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
Option

Purchase
Agreement
between the
Company and
C. Cliff

Defee 10.2
Form of
Severance
Agreement

between the
Company and
Lindsley
Medlin,
Martin

Anderson and
Valarie
Remmers

10.3**

Assignment
of
Membership
Interest
Agreement

between the
Company and
Inventory
Financing
Partners,
LLC 99.1

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 99.2
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).

** Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed
on November 12, 2002.

b) Reports on Form 8-K:
None.

SIGNATURES

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

Date: November 14, 2002

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/ Mark C. Layton

Chief Executive Officer

CERTIFICATIONS OF PRINCIPAL FINANCIAL 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize, and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

By: /s/ Thomas J. Madden

Chief Financial Officer and Chief Accounting Officer

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EXHIBIT NO.
DESCRIPTION
OF EXHIBITS

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between the
Company and
Lindsley
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of

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Interest
Agreement
between the
Company and

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Financing
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Certification
of Chief
Executive
Officer

Pursuant to
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Section
1350, as
Adopted

Pursuant to
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of the
Sarbanes-

Oxley Act of

2002 99.2
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of Chief
Financial
Officer

Pursuant to
18 U.S.C.
Section
1350, as
Adopted

Pursuant to
Section 906
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Sarbanes-

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

** Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed
on November 12, 2002.

OPTION PURCHASE AGREEMENT

THIS AGREEMENT is dated as of September 24, 2002 and is by and between PFSWEB, INC., a Delaware corporation (the "Company") and C. CLIFF DEFEE, an individual (the "Holder").

WHEREAS, the Holder is the holder of (i) an option to purchase 35,000 shares of Company common stock with an exercise price of \$1.92 per share issued on August 15, 2000 and expiring on August 15, 2010 and evidenced by Certificate No. 0.072, (ii) an option to purchase 80,000 shares of Company common stock with an exercise price of \$0.91 per share issued on December 5, 2001 and expiring on December 5, 2011 and evidenced by Certificate No. P1-006, (iii) an option to purchase 206,022 shares of Company common stock with an exercise price of \$0.91 per share issued on December 5, 2001 and expiring on December 5, 2011 and evidenced by Certificate No. P2-019, and (iv) an option to purchase 10,000 shares of Company common stock with an exercise price of \$0.84 per share issued on January 25, 2002 and expiring on January 25, 2012 and evidenced by Certificate No. 02.022 (all of the foregoing options being collectively referred to as the "Options"); and

WHEREAS, as of September 24, 2002, the Holder was subject to a Qualifying Termination of employment (as defined in that certain Executive Severance Agreement between the Company and the Holder); and

WHEREAS, the Holder has agreed to sell, transfer, assign and return to the Company, and the Company has agreed to purchase, acquire, redeem and cancel, an aggregate of 300,022 of the Options for the consideration hereinafter set forth;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows.

1. The Holder does hereby sell, transfer, convey, assign and return to the Company for redemption and cancellation, free and clear of all liens, claims and encumbrances, all of the Holder's right, title and interest in, to and under all of the Options, except for 31,000 of the options having an exercise price of \$0.91 per share issued on December 5, 2001 and expiring on December 5, 2011 and evidenced, in part, by Certificate No. P2-019 (said 31,000 options having vested prior to September 24, 2002 and being hereinafter referred to as the "Retained Options"), which shall not be subject to this Agreement and shall remain in full force and effect in accordance with their terms.

2. In consideration of the sale, transfer, conveyance, assignment, redemption, cancellation and return of the aforesaid Options, the Company shall pay to the Holder the sum of Sixty Thousand Dollars (\$60,000.00).

3. The Holder shall return to the Company the original Certificates evidencing the Options (or, if applicable, an affidavit of lost certificate and indemnity satisfactory to the Company), and the Company shall pay to the Holder the aforesaid consideration and shall issue to the Holder a new certificate evidencing the 31,000 Retained Options. Such certificate for the Retained Options shall provide for an exercise price of \$0.91 per share and an expiration date of December 5, 2011 and in all other respects the terms and provisions of the Retained Options shall continue and remain in full force and effect in accordance with their terms.

4. The Holder represents and acknowledges that (i) except for the Options, he has no other options or rights to purchase or acquire any shares of Company common stock from the Company, (ii) except as set forth herein, he has not pledged, sold, transferred or assigned his right, title and interest in, to or under any of the Options and (iii) he has neither received nor relied upon any representation or warranty of the Company, or any agent or representative thereof, as to the present or future value of the Options, the Retained Options, the Company common stock or any other matter involving the Company or otherwise, including any tax, financial or legal advice.

5. No amendment, modification or waiver of any term or provision of this Agreement shall be valid or effective unless in writing and signed by the parties hereto. This Agreement may be executed in one or more counterparts and each of such counterparts shall, for all purposes, be deemed to be an original, but all of the counterparts shall constitute one and the same instrument, and this Agreement shall be deemed effective on the date it is executed by the parties hereto. This Agreement and all of its provisions shall be binding on and inure to the benefit of the successors and assigns of the parties hereto. This Agreement constitutes the entire understanding of the parties, and supersedes all prior or contemporaneous agreements among them, with respect to the subject matter hereof.

IN WITNESS WHEREOF, the undersigned have hereunto executed this Agreement as of the day and year first aforesaid.

PFSWEB, INC.

By:

Name: Harvey H. Achatz
Title: Secretary

C. Cliff DeFee

September 24, 2002

THIS IS A LEGAL AGREEMENT, RELEASE AND COVENANT
NOT TO SUE. READ CAREFULLY BEFORE SIGNING.

As you know, we are implementing certain cost reduction activities which, unfortunately, include staff reductions and the termination of your employment. Although we have no obligation to do so, we have decided to offer to you certain employee severance benefits which are described in this letter agreement.

1. In consideration of the terms and provisions set forth herein, it is mutually agreed that your employment with PFSweb, Inc. and its subsidiaries (collectively, "the Company") shall be terminated, effective as of September 24, 2002 (the "Termination Date"). Effective on the Termination Date, you shall not be required to perform any further services on behalf of the Company as an employee and no further compensation shall be paid to you or on your behalf, except as set forth in this Agreement.

2. On or following the Termination Date, and within the time periods required by law, the Company shall pay you any outstanding wages you accrued up to the Termination Date, less all applicable statutory or required withholding.

3. In consideration for signing this Agreement, the Company will continue to pay to your current salary (the "Severance Payment") for a period of six months from the Termination Date (the "Payment Period"). The Severance Payment shall be reduced by (i) the amount of any loans, advances or other amounts due or owing by you to the Company, (ii) the amount of all wages, bonus and other cash compensation or remuneration received by you for full-time services rendered to an employer or other person or entity during the Payment Period and (iii) and shall be net of any and all required withholding and taxes. The Severance Payment shall be payable in periodic installments during the Payment Period in accordance with the Company's payroll schedule. During the Payment Period, you shall also continue to be entitled to participate in all employee benefits provided to you prior to the Termination Date, upon the same terms and conditions as in effect prior to the Termination Date (including employee contributions), subject, however, to any changes or modifications (whether additions or reductions) to such benefits as the Company shall establish during such Payment Period and which apply to all employees generally. The foregoing continuation of benefits does not include stock options which shall terminate as of the Termination Date.

4. You shall be entitled to continue your group health and medical benefits after the end of the Payment Period pursuant to the Consolidated Omnibus Reconciliation Act of 1985 ("COBRA"). The Company shall provide you with a separate notice of your rights to COBRA benefits.

5. By signing this Agreement, and in consideration of the payment of the Severance Payment and the other terms set forth herein, you hereby release and forever discharge the Company and its present and former officers, owners, directors, stockholders, employees, representatives, attorneys, agents and its divisions, affiliates, subsidiaries, predecessors, transferees, successors and assigns (hereinafter "Released Parties") from any and all liability, actions, causes of action, proceedings, suits, debts, covenants, contracts, controversies, agreements, promises, damages, judgments, and demands of whatever nature, in law or in equity, direct or indirect, known or unknown, matured or not matured that you and/or your heirs, executors, administrators, successors or assigns ever had, now have or may have in the future to the effective date of this Agreement against the Released Parties or any of them, including, but not limited to, any claim, charge or cause of action for breach of contract, tort or harassment or discrimination under any federal, state or local law, rule, regulation or executive order, such as the Age Discrimination in Employment Act of 1967, as amended, the Older Workers Benefit Protection, the Rehabilitation Act of 1973, the Americans with

Disabilities Act, the Family and Medical Leave Act, the Employee Income Retirement Security Act of 1974, and Title VII of the Civil Rights Act of 1964, as amended. You further represent that as of the date of your execution of this Agreement, there are no complaints, charges or other matters filed by you or pending before any federal, state or local court or agency against the Released Parties, and that in the future, you will not file or cause to be filed any court actions against the Released Parties or any of them arising out of events occurring prior to your execution of this Agreement. Nothing contained in this "Release" shall restrict your right to file a charge or participate in an investigation, hearing or proceeding before the Equal Employment Opportunity Commission, except that you agree that you will not accept any further recovery, award and/or damages from the Company as a result of any such investigation. You also hereby waive and releases in perpetuity any and all other employment rights or claims that you may have against the Company.

6. You acknowledge that, during the course of your employment, you have had access to and/or the Company has disclosed to you information relating to the nature and operation of the Company's business, the Company's manner of operation, its financial condition, its business operations, its business and marketing plans and pricing methods (hereinafter "Confidential Information"). You agree that, at all times, you will retain in confidence such Confidential Information and that you will not, either directly or indirectly, use, misappropriate, reveal, disclose, publish, communicate or divulge any such Confidential Information to any other person or entity for any purpose whatsoever. You expressly agree that you shall keep secret and confidential all such Confidential Information, except as authorized by the Company in writing.

7. You agree to return to the Company, all Company property in your possession including, but not limited to all keys, laptop computers, cellular telephones, beepers, credit cards and calling cards.

8. You hereby agree that you will not make any disparaging comments, negative statements or do anything that derogates the Company, or its services, reputation, officers, employees, financial status, or operations or that damages the Company in any business relationship. You further agree not to make any such disparaging comments on any electronic bulletin board.

9. You hereby acknowledge that the only consideration for signing this Agreement is as set forth herein; that such consideration is in addition to any consideration to which you are already entitled as a result of your employment with the Company; that you have been advised, or have had sufficient opportunity to consult advisors, legal and otherwise, of your own choosing; and that you have signed this Agreement voluntarily and with a full understanding of its terms and conditions, which, once effective, may not be amended, supplemented, canceled or discharged except by a writing signed by you and the Company.

10. This Agreement shall not constitute nor be construed as an admission by either party of any misconduct or violation of any federal, state or local law, rule or regulation, or any contractual obligation or Company procedure. Accordingly, this Agreement shall not be admissible in any proceeding except one to enforce the terms of this Agreement.

11. This Agreement constitutes the complete understanding between you and the Company and fully supersedes any prior understandings or agreements, whether written or oral, between you and the Company regarding the subject matter hereof.

12. If any provision of this Agreement is subsequently declared by any court or agency of competent jurisdiction to be illegal, void or unenforceable, as written, the remaining provisions of this Agreement shall nevertheless remain in full force and effect.

13. You acknowledge that if you are over 40 years old: (i) you have 21 calendar days from the date hereof to consider signing this Agreement, (ii) if you choose not to sign and return this Agreement within the applicable time period, the Company has no obligation to pay the Severance Payment, (iii) it is understood and agreed that this Agreement shall not be effective for a period of seven days following your signing it and you may revoke this Agreement for any reason during such seven day period and (iv) it is further understood that the Severance Payment will not be paid by the Company (1) until the expiration of this seven day revocation period or (2) if you choose to revoke this Agreement.

Please confirm that this letter accurately sets forth our agreement by signing the signature page below.

SEVERANCE AND RELEASE SIGNATURE PAGE

I acknowledge that I have carefully read this Agreement and understand all of its terms including the full and final Release of Claims set forth in paragraph 5, above. I further acknowledge that I have voluntarily entered into this Agreement, that I have not relied upon any representation or statement, written or oral, not set forth in this Agreement, and that I have had this Agreement reviewed by my attorney, or have been given the opportunity by the Company to do so.

Employee signature

Print name

Date

PFSweb, Inc.

By: -----
Name:
Title:

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, 2002 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, 2002

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, 2002 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, 2002