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 March 31, 2005

OR

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

For the Transition Period from ____________ to ____________

Commission File Number **000-28275**

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**75-2837058**
(State of Incorporation)	(I.R.S. Employer I.D. No.)
500 North Central Expressway, Plano, Texas	**75074**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ☑

At April 18, 2005 there were 22,394,142 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

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March 31, 2005

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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)

	March 31, 2005 (Unaudited)	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14,948	$ 13,592
Restricted cash	845	2,746
Accounts receivable, net of allowance for doubtful accounts of $419 and $504 at March 31, 2005 and December 31, 2004, respectively	39,718	41,565
Inventories, net	46,198	44,947
Other receivables	10,092	8,061
Prepaid expenses and other current assets	3,361	3,349
Total current assets	115,162	114,260
PROPERTY AND EQUIPMENT, net	14,547	14,264
RESTRICTED CASH	475	675
OTHER ASSETS	1,295	1,128
Total assets	$ 131,479	$ 130,327
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 22,625	$ 19,098
Trade accounts payable	58,191	61,583
Accrued expenses	10,988	10,971
Total current liabilities	91,804	91,652
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	6,950	7,232
OTHER LIABILITIES	1,856	1,517
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS’ EQUITY:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 40,000,000 shares authorized; 22,384,524 and 21,665,585 shares issued at March 31, 2005 and December 31, 2004, respectively; and 22,298,224 and 21,579,285 outstanding at March 31, 2005 and December 31, 2004, respectively	22	22
Additional paid-in capital	58,344	56,645
Accumulated deficit	(29,291)	(29,077)
Accumulated other comprehensive income	1,879	2,421
Treasury stock at cost, 86,300 shares	(85)	(85)
Total shareholders’ equity	30,869	29,926
Total liabilities and shareholders’ equity.	$ 131,479	$ 130,327

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 March 31, 2005	Three Months Ended March 31, 2004
REVENUES:		
Product revenue, net	$ 63,630	$ 68,570
Service fee revenue	14,085	7,131
Pass-through revenue	4,150	1,784
Total revenues	81,865	77,485
COSTS OF REVENUES:		
Cost of product revenue	59,637	64,453
Cost of service fee revenue	10,768	5,253
Pass-through cost of revenue	4,150	1,784
Total costs of revenues	74,555	71,490
Gross profit	7,310	5,995
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,966	7,132
Income (loss) from operations	344	(1,137)
INTEREST EXPENSE, NET	319	428
Income (loss) before income taxes	25	(1,565)
INCOME TAX EXPENSE	239	202
NET LOSS	$ (214)	$ (1,767)
NET LOSS PER SHARE:		
Basic and Diluted	$ (0.01)	$ (0.08)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and Diluted	22,136	21,186

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)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (214)	$ (1,767)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,503	1,126
Provision for doubtful accounts	(81)	39
Provision for excess and obsolete inventory	—	354
Deferred income taxes	33	(49)
Changes in operating assets and liabilities:		
Accounts receivables	1,275	(3,927)
Inventories, net	(2,035)	5,442
Prepaid expenses, other receivables and other current assets	(2,065)	(673)
Accounts payable, accrued expenses and other liabilities	(1,952)	(1,311)
Net cash used in operating activities	(3,536)	(766)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,073)	(956)
Decrease in restricted cash	1,198	83
Net cash used in investing activities	(875)	(873)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(277)	(216)
Decrease in restricted cash	903	185
Proceeds from issuance of common stock	1,698	33
Proceeds from debt, net	3,495	1,399
Net cash provided by financing activities	5,819	1,401
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(52)	(17)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,356	(255)
CASH AND CASH EQUIVALENTS, beginning of period	13,592	14,743
CASH AND CASH EQUIVALENTS, end of period	$ 14,948	$ 14,488
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$ 327	$ 1,298

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. and its subsidiaries, including Supplies Distributors, Inc., are collectively referred to as the "Company;" "Supplies Distributors" refers to Supplies Distributors, Inc. and its subsidiaries; and "PFSweb" refers to PFSweb, Inc. and its subsidiaries excluding Supplies Distributors.

PFSweb Overview

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

Supplies Distributors Overview

Supplies Distributors acts as a master distributor of various products, primarily International Business Machines Corporation ("IBM") product, under a master distributor agreement with IBM. Supplies Distributors has outsourced to PFSweb the transaction management and fulfillment service functions of its distribution business and has outsourced to a third party the sales and marketing functions. Supplies Distributors sells its products in the United States, Canada and Europe.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of March 31, 2005, and for the three months ended March 31, 2005 and 2004, 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 March 31, 2005, its results of operations for the three months ended March 31, 2005 and 2004 and its results of cash flows for the three months ended March 31, 2005 and 2004. 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 loss or shareholders' equity.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The recognition and allocation of certain operating expenses in these consolidated financial statements also

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

require management estimates and assumptions. The Company's estimates and assumptions are continually evaluated based on available information and experience. Because the use of estimates is inherent in the financial reporting process, actual results could differ from estimates.

Concentration of Business and Credit Risk

The Company's product revenue was primarily generated by sales of product purchased under master distributor agreements with one supplier.

Sales to four customers accounted individually each for greater than 10%, and in the aggregate accounted for approximately 48%, of the Company's total product revenues for the three months ended March 31, 2005. Service fee revenue from three clients individually accounted for approximately 28%, 13% and 12% service fee revenue for the three months ended March 31, 2005. On a consolidated basis, one customer/client accounted for approximately 10% of the Company's total revenues for the three months ended March 31, 2005. As of March 31, 2005, two customers each individually accounted for approximately 10% of accounts receivable.

In conjunction with Supplies Distributors' financings, PFSweb has provided certain collateralized guarantees on behalf of Supplies Distributors. Supplies Distributors' ability to obtain financing on similar terms would be significantly impacted without these guarantees. Additionally, since Supplies Distributors has limited personnel and physical resources, its ability to conduct business could be materially impacted by contract terminations by the party performing product demand generation for the IBM products.

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

Cash and Cash Equivalents

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

Inventories

Inventories (all of which are finished goods) are stated at the lower of weighted average cost or market. Supplies Distributors assumes responsibility for slow-moving inventory under certain master distributor agreements, subject to certain termination rights, but has the right to return product rendered obsolete by engineering changes, as defined. The Company reviews inventory for impairment on a periodic basis, but at a minimum, annually. Recoverability of the inventory on hand is measured by comparison of the carrying value of the inventory to the fair value of the inventory. The allowance for slow moving inventory was $2.0 million and $2.5 million at March 31, 2005 and December 31, 2004, respectively.

In the event PFSweb, Supplies Distributors and IBM terminate the master distributor agreements, the agreements provide for the parties to mutually agree on a plan of disposition of Supplies Distributors' then existing inventory.

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

Property and Equipment

The Company's property held under capital leases amounted to approximately $2.7 million and $3.0

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

million, net of accumulated amortization of approximately $5.9 million and $5.4 million, at March 31, 2005 and December 31, 2004, respectively.

Stock-Based Compensation

The Company accounts for stock-based employee compensation plans using the intrinsic-value method as outlined under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25") and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25*, issued in March 2000. The following table shows the pro forma effect on the Company's net income (loss) and income (loss) per share as if compensation cost had been recognized for stock-based employee compensation plans based on their fair value at the date of the grant. The pro forma effect of stock-based employee compensation plans on the Company's net income (loss) for those periods may not be representative of the pro forma effect for future periods due to the impact of vesting and potential future awards.

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	(In thousands, except per share amts)	
Net loss as reported	$ (214)	$ (1,767)
Add: Stock-based non-employee compensation expense included in reported net income (loss)	—	—
Deduct: Total stock-based employee and non-employee compensation expense determined under fair value based method	(201)	(108)
Pro forma net loss, applicable to common stock for basic and diluted computations	$ (415)	$ (1,875)
Loss per common share – as reported		
Basic and diluted	$ (0.01)	$ (0.08)
Loss per common share – pro forma		
Basic and diluted	$ (0.02)	$ (0.08)

During April 2005, the Company issued an aggregate of 700,000 options to purchase shares of common stock to officers and employees of the Company.

Impact of Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123, *Share-Based Payment* ("SFAS 123R") which replaces SFAS No. 123, *Accounting for Stock-Based Compensation,* ("SFAS 123") and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees.* In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107, *Share-Based Payment,* which provides interpretive guidance related to SFAS 123R. SFAS 123R requires all share-based payment transactions to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. In April 2005, the SEC delayed the effective date of SFAS 123R to the beginning of the annual reporting period that begins after June 15, 2005. The Company is currently evaluating SFAS 123R to determine the impact on its consolidated financial statements. However, it is expected to have a negative effect on consolidated net income.

3. COMPREHENSIVE LOSS (in thousands)

	Three Months Ended March 31 2005	Three Months Ended March 31 2004
Net loss	$ (214)	$ (1,767)
Other comprehensive loss:		
Foreign currency translation adjustment	(542)	(281)
Comprehensive loss	$ (756)	$ (2,048)

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

4. NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing the net loss available to common stockholders by the weighted-average number of common shares outstanding for the reporting period. For the three months ended March 31, 2005 and 2004, outstanding options of 4,821,376 and 5,051,554, respectively, to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation.

5. VENDOR FINANCING:

Outstanding obligations under vendor financing arrangements consist of the following (in thousands):

	March 31, 2005	December 31, 2004
Inventory and working capital financing agreements:		
United States	$ 26,522	$ 26,962
Europe	12,347	13,110
Total	$ 38,869	$ 40,072

Inventory and Working Capital Financing Agreement, United States

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of IBM products in the United States, providing financing for eligible IBM inventory and for certain other receivables up to $27.5 million (temporarily increased to $31.0 million as of March 31, 2005). As of March 31, 2005, Supplies Distributors had $4.5 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $7.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 1%. The facility also includes a monthly service fee. The Company has classified the outstanding amounts under this credit facility as accounts payable in the consolidated balance sheets.

Inventory and Working Capital Financing Agreement, Europe

Supplies Distributors' European subsidiaries have a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance their distribution of IBM products in Europe. The asset based credit facility with IBM Belgium provides up to 12.5 million Euros (approximately $16.2 million) in financing for purchasing IBM inventory and for certain other receivables. As of March 31, 2005, Supplies Distributors' European subsidiaries had 2.9 million euros ($3.8 million) of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors and its European subsidiaries to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors' European subsidiaries, as well as collateralized guaranties of Supplies Distributors and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $7.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at Euribor plus 2.5%. Supplies Distributors' European subsidiaries pay a monthly service fee on the commitment. The Company has

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

classified the outstanding amounts under this credit facility that are collateralized by inventory as accounts payable in the consolidated balance sheets.

6. *DEBT AND CAPITAL LEASE OBLIGATIONS;*

Outstanding obligations under debt and capital lease obligations consist of the following (in thousands):

	March 31, 2005	December 31, 2004
Loan and security agreements, United States		
Supplies Distributors	$ 13,250	$ 8,328
PFSweb	5,375	4,853
Factoring agreement, Europe	2,415	3,848
Taxable revenue bonds	5,000	5,000
Master lease agreements	3,117	3,141
Inventory and working capital financing agreement –		
Europe	—	682
Other	418	478
Total	29,575	26,330
Less current portion of long-term debt	22,625	19,098
Long-term debt, less current portion	$ 6,950	$ 7,232

Loan and Security Agreement — Supplies Distributors

Supplies Distributors has a loan and security agreement with Congress Financial Corporation (Southwest) (“Congress”) to provide financing for up to $25 million of eligible accounts receivable in the United States and Canada. As of March 31, 2005, Supplies Distributors had $2.5 million of available credit under this agreement. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement 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 0.00% to 0.25% or Eurodollar rate plus 2.25% to 2.75%, dependent on excess availability, as defined. This agreement contains cross default provisions, various restrictions upon the ability of and Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than $6.5 million and restricted cash of less than $5.0 million, and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors has entered into blocked account agreements with its banks and Congress pursuant to which a security interest was granted to Congress for all customer remittances received in specified bank accounts. At March 31, 2005 and December 31, 2004, these bank accounts held $0.3 million and $1.2 million, respectively, which was restricted for payment to Congress.

Loan and Security Agreement – PFSweb

Priority Fulfillment Services, Inc. (“PFS”), a wholly-owned subsidiary of PFSweb, has a Loan and Security Agreement with Comerica Bank (“Comerica”), which was amended in December 2004 (“Comerica Agreement”). The Comerica Agreement provides for up to $5.0 million of eligible accounts receivable financing (“Working Capital Advances”) through March 2, 2007 and $2.5 million of equipment financing (“Equipment Advances”) through June 15, 2008. Outstanding Working Capital Advances, $3.5 million as of March 31, 2005, accrue interest at prime rate plus 1%. Outstanding Equipment Advances, $1.9 million as of March 31, 2005, accrue interest at prime rate plus 1.5%. As of March 31, 2005, PFS had $1.4 million of available credit under the Working Capital Advance portion of this facility and $0.2 million of available credit under the Equipment Advance portion of this facility. In April 2005, the Company repaid the $3.5

million of Working Capital Advances outstanding as of March 31, 2005. The Comerica Agreement contains cross default provisions, various restrictions upon PFS' ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of $20 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement restricts the amount of the Subordinated Note to a maximum of $8 million. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb. The Comerica Agreement requires PFS to maintain a minimum cash balance of $1.3 million at Comerica.

Factoring Agreement

Supplies Distributors' European subsidiary has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million euros (approximately $9.7 million) of eligible accounts receivables through March 2006. As of March 31, 2005, Supplies Distributors' European subsidiary had approximately 2.1 million euros ($2.7 million) of available credit under this agreement. Borrowings under this agreement can be either cash advances or straight loans, as defined. Cash advances accrue interest at 3.8% and straight loans accrue interest at Euribor plus 1.3%. This agreement contains various restrictions upon the ability of Supplies Distributors' European subsidiary to, among other things, merge, consolidate and incur indebtedness, as well as financial covenants, such as minimum net worth. This agreement is secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

Taxable Revenue Bonds

PFSweb has a Loan Agreement with the Mississippi Business Finance Corporation (the "MBFC") in connection with the issuance by the MBFC of $5 million MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the "Bonds"). The MBFC loaned the proceeds of the Bonds to PFSweb for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in the Company's Southaven, Mississippi distribution facility. The Bonds bear interest at a variable rate, as determined by Comerica Securities, as Remarketing Agent. PFSweb, at its option, may convert the Bonds to a fixed rate, to be determined by the Remarketing Agent at the time of conversion.

The primary source of repayment of the Bonds is a letter of credit (the "Letter of Credit") in the initial face amount of $5.1 million issued by Comerica pursuant to a Reimbursement Agreement between PFSweb and Comerica under which PFSweb is obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has an initial maturity date of December 2006 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof.

Debt Covenants

To the extent the Company fails to comply with its covenants applicable to its debt or vendor financing obligations, including the monthly financial covenant requirements and required level of stockholders' equity ($20.0 million), and the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations.

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

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Master Lease Agreements

The Company has a Term Lease Master Agreement with IBM Credit Corporation ("Master Lease Agreement") that provides for leasing or financing transactions of equipment and other assets, which generally have terms of 3 to 5 years. The outstanding leasing transactions ($1.1 million and $1.2 million as of March 31, 2005 and December 31, 2004, respectively) are secured by the related equipment and letters of credit. The outstanding financing transactions ($0.4 million and $0.5 million as of March 31, 2005 and December 31, 2004, respectively) are secured by a letter of credit.

The Company has a master agreement with a leasing company that provided for leasing transactions of certain equipment. The amounts outstanding under this agreement as of March 31, 2005 and December 31, 2004 were $1.2 million and $1.2 million, respectively, and are secured by the related equipment.

The Company enters into other leasing and financing agreements as needed to finance the purchasing or leasing of certain equipment or other assets. Borrowings under these agreements are generally secured by the related equipment.

7. ***SEGMENT INFORMATION***

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

	Three Months Ended March 31,	
	2005	**2004**
Revenues (in thousands):		
PFS	$ 20,365	$ 11,037
Supplies Distributors	63,630	68,570
Eliminations	(2,130)	(2,122)
	$ 81,865	$ 77,485
Income (loss) from operations (in thousands):		
PFS	$ (1,334)	$ (2,821)
Supplies Distributors	1,678	1,677
Eliminations	—	7
	$ 344	$ (1,137)
Depreciation and amortization (in thousands):		
PFS	$ 1,503	$ 1,119
Supplies Distributors	—	14
Eliminations	—	(7)
	$ 1,503	$ 1,126
Capital expenditures (in thousands):		
PFS	$ 2,073	$ 956
Supplies Distributors	—	—
Eliminations	—	—
	$ 2,073	$ 956

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

	March 31, 2005	December 31, 2004
Assets (in thousands):		
PFS	$ 59,131	$ 56,610
Supplies Distributors	87,551	88,548
Eliminations	(15,203)	(14,831)
	$ 131,479	$ 130,327

8. *COMMITMENTS AND CONTINGENCIES*

The Company receives municipal tax abatements in certain locations. During 2004 the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements. The Company plans to dispute the notice. If the dispute is not resolved favorably, the Company could be assessed additional taxes for calendar years 2004 and 2005. The Company has not accrued for the additional taxes, which through March 31, 2005 could be $0.4 million to $0.5 million for 2004 and $0.1 million for 2005, as it does not believe that it is probable that an additional assessment will be incurred.

On May 9, 2005, a lawsuit was filed in the District Court of Collin County, Texas, by J. Gregg Pritchard, as Trustee of the D.I.C. Creditors Trust, naming the former directors of Daisytek International Corporation and the Company as defendants. Daisytek filed for bankruptcy in May 2003 and the Trust was created pursuant to Daisytek's Plan of Liquidation. The complaint alleges, among other things, that the spin-off of the Company from Daisytek in December 1999 was a fraudulent conveyance and that Daisytek was damaged thereby in the amount of at least $38 million. The Company believes the claim has no merit and intends to vigorously defend the action.

9. *SUBSEQUENT EVENT*

In April 2005, the Company entered into a five-year operating lease arrangement for a new distribution facility in Southaven, MS, near its existing facility in Southaven, MS.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2004, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our reliance on the fees generated by the transaction volume or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with IBM;
- our dependence upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- trends in the market for our services;
- trends in e-commerce;
- whether we can continue and manage growth;
- changes in the trend toward outsourcing;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- the unknown effects of possible system failures and rapid changes in technology;
- trends in government regulation both foreign and domestic;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency on key personnel;
- the impact of new accounting standards and rules regarding revenue recognition, stock options and other matters;
- changes in accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing; and
- our ability or the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants.

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 business and e-commerce initiatives. We derive our revenues from a broad range of services, including professional consulting, technology collaboration, order management, managed web hosting and web development, customer relationship management, financial services including billing and collection services and working capital solutions, 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 warehouses that we lease or manage and include real-time inventory management and customized picking, packing and shipping of our clients' customer orders. We currently offer the ability to 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, contemporary home furnishings, apparel, aviation, telecommunications and consumer electronics, among others.

We provide these services, and earn our revenue, through two separate business segments, which have operationally similar business models. The first business segment is a service fee revenue model. In this segment, we do not own the underlying inventory or the resulting accounts receivable, but provide management services for these client-owned assets. We typically charge our service fee revenue on a cost-plus basis, a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors.

Many of our service fee contracts involve third-party vendors who provide additional services such as package delivery. The costs we are charged by these third-party vendors for these services are often passed on to our clients. Our billings for reimbursements of these and other 'out-of-pocket' expenses include travel, shipping and handling costs and telecommunication charges are included in pass-through revenue.

Our second business segment is a product revenue model. In this segment, we are a master distributor of product for IBM and certain other clients. In this capacity, we purchase, and thus own, inventory and recognize the corresponding product revenue. As a result, upon the sale of inventory, we own the accounts receivable. Freight costs billed to customers are reflected as components of product revenue. This business segment requires significant working capital requirements, for which we have senior credit facilities to provide for more than $80 million of available financing.

Growth is a key element to achieving our future goals, including maintaining sustainable profitability. Our growth is driven by two main elements: new client relationships and organic growth from existing clients. On an overall basis, we have experienced an increase in service fee revenues from existing clients and an increase in product revenues in recent years. During 2004, we were successful in winning new contracts with new and existing clients. We currently believe these new contracts, once fully operational, will generate annual service fee revenue of more than $20 million. We expect to invoice more than 80% of the estimated annual run-rate revenue of these new contracts during 2005. Our results for the quarter ended March 31, 2005 include approximately $4.6 million of new revenue including certain incremental projects.

Although our success with winning new contracts has recently improved, we continue to monitor and control our costs to focus on profitability. While we expect our new service fee contracts to yield increased gross profit, we expect this profit to be somewhat offset by incremental investments to implement new contracts, investments in infrastructure and sales and marketing to support our targeted growth and increased public company professional fees.

Our expenses comprise primarily four categories: 1) cost of product revenue, 2) cost of service fee revenue, 3) cost of pass-through revenue and 4) selling, general and administrative ("SG&A") expenses.

Cost of product revenue — cost of product revenue consists of the purchase price of product sold and freight costs, which are reduced by certain reimbursable expenses. These reimbursable expenses include pass-through customer marketing programs, direct costs incurred in passing on any price decreases offered by IBM to Supplies Distributors or its customers to cover price protection and certain special bids, the cost of products provided to replace defective product returned by customers and certain other expenses as defined under the master distributor agreements.

Cost of service fee revenue – 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.

Cost of pass-through revenue – the related reimbursable costs for pass-through expenditures are reflected as cost of pass-through revenue.

SG&A expenses — consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, certain direct contract costs related to our IBM and other master distributor agreements are reflected as selling and administrative expenses.

Monitoring and controlling our available cash balances continues to be a primary focus. Our cash and liquidity positions are important components of our financing of both current operations and our targeted growth. In recent years we have added to our available cash and liquidity positions through various transactions. First we have a working capital financing agreement with a bank that currently provides financing for up to $5 million of eligible accounts receivable and financing for up to $2.5 million of eligible capital expenditures. Secondly, in 2003 we completed a private placement of approximately 1.6 million shares of our common stock to certain investors that provided net proceeds of approximately $3.2 million. In January 2005, we issued an additional 0.4 million shares of common stock to certain of these investors who exercised warrants issued in the private placement. The warrants exercised provided $1.3 million of additional proceeds. Thirdly, in 2004 we received proceeds of $5 million of taxable revenue bonds to finance capital additions to our new facility in Southaven, MS.

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 March 31, 2005 (Unaudited)	Three Months Ended March 31, 2004 (Unaudited)
Product revenue, net	77.7%	88.5%
Service fee revenue	17.2	9.2
Pass-through revenue	5.1	2.3
Total revenues	100.0	100.0
Cost of product revenue (as % of product revenue)	93.7	94.0
Cost of service fee revenue (as % of net service fee revenue)	76.5	73.7
Cost of pass-through revenue (as % of pass-through revenue)	100.0	100.0
Total costs of revenues	91.1	92.3
Gross profit	8.9	7.7
Selling, general and administrative expenses	8.5	9.2
Income (loss) from operations	0.4	(1.5)
Interest expense, net	0.4	0.5
Income (loss) before income taxes	0.0	(2.0)
Income tax expense	0.3	0.3
Net loss	(0.3)%	(2.3)%

Results of Operations for the Interim Periods Ended March 31, 2005 and 2004

Product Revenue. Product revenue was $63.6 million for the three months ended March 31, 2005, as compared to $68.6 million for the three months ended March 31, 2004, a decrease of $5.0 million, or 7.2%. The decrease in product revenue resulted primarily from the decreased sales volume of certain product in Europe, partially offset by the favorable impact of exchange rates in our European and Canadian operations.

Service Fee Revenue. Service fee revenue was $14.1 million for the three months ended March 31, 2005 as compared to $7.1 million for the three months ended March 31, 2004, an increase of $7.0 million or 97.6%. Service fee revenue for both the three months ended March 31, 2005 and 2004 included increased service fees generated from incremental projects with certain client relationships. The change in service fee revenue is shown below ($ millions):

	Three Months
Period ended March 31, 2004	$ 7.1
New service contract relationships, including certain incremental projects under new contracts	4.6
Increase in existing client service fees from organic growth and certain incremental projects with existing clients	2.9
Terminated clients not included in 2005 revenue	(0.5)
Period ended March 31, 2005	$ 14.1

The increase in existing client service fees primarily resulted from product release schedule changes from our largest service fee client. We expect that these schedule changes will ultimately accelerate volumes into the first three months of the year that we previously processed during the second six months of the year.

Cost of Product Revenue. Cost of product revenue was $59.6 million for the three months ended March 31, 2005, as compared to $64.5 million for the three months ended March 31, 2004, a decrease of $4.9 million or 7.6%. Cost of product revenue as a percent of product revenue was 93.7% during the three months ended March 31, 2005 and 94.0% during the three months ended March 31, 2004. The resulting gross profit margin was 6.3% for the three months ended March 31, 2005 and 6.0% for the three months ended March 31, 2004. Cost of product revenue decreased primarily as the result of decreased sales volumes of certain products. The gross margin improved primarily as a result of a provision of $0.4 million for excess and obsolete inventory recorded during the three months ended March 31, 2004.

Cost of Service Fee Revenue. Cost of service fee revenue was $10.8 million for the three months ended March 31, 2005, as compared to $5.3 million during the three months ended March 31, 2004, an increase of $5.5 million or 105.0%. The resulting service fee gross profit was $3.3 million or 23.5% of service fee revenue, during the three months ended March 31, 2005 as compared to $1.9 million, or 26.3% of service fee revenue for the three months ended March 31, 2004. Our gross profit as a percent of service fees decreased in the current period primarily due to lower gross margins on certain new contracts, including certain start up costs, partially offset by higher margins earned on our largest service fee client as a result of reduced seasonality. As we add new service fee revenue in the future, we currently intend to target the underlying contracts to earn an average gross profit percentage of 25-35%, but we have and may continue to accept lower gross margin percentages on certain contracts depending on contract scope and other factors.

Selling, General and Administrative Expenses. SG&A expenses were $7.0 million for the three months ended March 31, 2005, or 8.5% of total net revenues, as compared to $7.1 million, or 9.2% of total net revenues, for the three months ended March 31, 2004. We currently expect to incur incremental costs during the quarters ending June 30 and September 30, 2005 associated with our relocation of certain operations from two of our Memphis, TN facilities to a new facility in Southaven, MS.

Interest Expense, net. Net interest expense was $0.3 million for the three months ended March 31, 2005 as compared to $0.4 million for the three months ended March 31, 2004. The decrease in net interest expense is primarily due to lower average loan balances, partially offset by the impact of increased interest rates.

Income Taxes. For the three months ended March 31, 2005 and 2004, we recorded a tax provision of $0.2 million primarily associated with our subsidiary Supplies Distributors' Canadian and European operations. We did not record an income tax benefit associated with our consolidated net loss in our U.S. operations. A valuation allowance has been provided for our net deferred tax assets as of March 31, 2005, which are primarily related to our net operating loss carryforwards. We did not record an income tax benefit for our PFSweb Canadian pre-tax losses in the current or prior periods. Due to the consolidation of Supplies Distributors, in the future we anticipate that we will continue to record an income tax provision associated with Supplies Distributors' Canadian and European results of operations.

Liquidity and Capital Resources

Net cash used in operating activities was $3.5 million for the three months ended March 31, 2005, and primarily resulted from a $2.0 million increase in inventories, a $2.1 million increase in prepaid expenses, other receivables and other current assets and a $2.0 million decrease in accounts payable, accrued expenses and other liabilities partially offset by a decrease in accounts receivable of $1.3 million. The decrease in accounts payable was due to the timing of invoice processing by one of our master distribution vendors and a decrease in certain liabilities due to clients for unremitted funds collected on their behalf and reimbursable expense deposits. The decrease in accounts receivable was primarily due to reduced revenue from our Supplies Distributors business segment partially offset by increased service fee billings for certain client relationships. Net cash used in operating activities was $0.8 million for the three months ended March 31, 2004, and primarily resulted from a decrease in accounts payable, accrued expenses and other liabilities of $1.3 million, an increase in accounts receivable of $3.9 million and an increase in prepaid expenses, other receivables and other current assets of $0.7 million, partially offset by a $5.4 million decrease in inventory.

Net cash used in investing activities for the three months ended March 31, 2005 totaled $0.9 million, representing capital expenditures, offset by a decrease in restricted cash. Net cash provided by investing activities for the three months ended March 31, 2004 totaled $0.9 million, primarily representing capital expenditures. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, and general expansion of our facilities, both domestic and foreign. We expect to incur capital expenditures to support new contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $7 to $10 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event that we do not obtain the financing or achieve the revenue necessary to support such investments.

Net cash provided by financing activities was approximately $5.8 million for the three months ended March 31, 2005, primarily representing $3.5 million of proceeds from debt, $1.7 million from the issuance of common stock pursuant to our employee stock purchase and stock option programs and warrant exercises and a $0.9 million decrease in restricted cash. Net cash provided by financing activities was approximately $1.4 million for the three months ended March 31, 2004, primarily representing proceeds from debt.

During the three months ended March 31, 2005, our working capital increased to $23.4 million from $22.6 million at December 31, 2004, primarily as a result of the issuance of common stock due to the exercise of certain warrants. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including the sale of equity, utilizing capital or operating leases, borrowing under our credit facilities, expanding our current credit facilities, entering into new debt agreements or transferring to third parties a portion of our subordinated loan balance due from Supplies Distributors. In conjunction with certain of these alternatives, we may be required to provide certain letters of credit to secure these arrangements. No assurances can be given that we will be successful in obtaining any additional financing or the terms thereof. We currently believe that our cash position, financing available under our credit facilities and funds generated from operations (including our anticipated revenue growth and/or cost reductions to offset lower than anticipated revenue growth) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our lease obligations, and additional subordinated loans to our subsidiary Supplies Distributors, if necessary, for at least the next twelve months.

The following is a schedule of our total contractual cash obligations as of March 31, 2005, which is comprised of operating leases, debt (including vendor financing) and capital leases, including interest (in millions):

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Debt	$ 65,652	$ 59,821	$ 2,631	$ 3,200	$ —
Capital lease obligations	2,995	1,279	1,716	—	—
Operating leases	19,815	6,211	12,144	1,251	209
Total	$ 88,462	$ 67,311	$ 16,491	$ 4,451	$ 209

In support of certain debt instruments and leases, as of March 31, 2005, we had $0.8 million of cash restricted as collateral for letters of credit. The letters of credit expire at various dates through March 2007, the related debt and lease obligations termination dates. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain Supplies Distributors' credit facilities. Many of our debt facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other agreements. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders' equity, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. Any requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of March 31, 2005, we were in compliance with all debt covenants and we believe that we will maintain such compliance throughout calendar year 2005. Other than those noted herein, we do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

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.

Supplies Distributors has a short-term credit facility with IBM Credit LLC ("IBM Credit") and its European subsidiaries have a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance their distribution of IBM products. We have provided a collateralized guaranty to secure the repayment of these credit facilities. As of March 31, 2005, the asset-based credit facilities provided financing for up to $31.0 million and up to 12.5 million Euros (approximately $16.2 million) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2006.

Supplies Distributors also has 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 United States and Canada. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement.

Supplies Distributors' European subsidiary has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million Euros (approximately $9.7 million) of eligible accounts receivables through March 29, 2006. Borrowings under this agreement can be either cash advances or straight loans, as defined.

These credit facilities contain cross default provisions, various restrictions upon the ability of Supplies Distributors and its subsidiaries to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $7.0 million, maintain restricted cash of less than $5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure and a minimum shareholders' equity of at least $18.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries under these facilities if they are unable to do so. We have 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.

Our subsidiary, Priority Fulfillment Services, Inc. ("PFS"), has entered into a Loan and Security Agreement with Comerica Bank ("Comerica"), which provides for up to $5.0 million of eligible accounts receivable financing through March 2007, and up to $2.5 million of eligible equipment purchases through June 2008 (of which $0.2 million was available at March, 2005). We entered this Agreement to supplement our existing cash position, and provide funding for our future operations, including our targeted growth. The Agreement contains cross default provisions, various restrictions upon our ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of $20 million, as defined, and a minimum liquidity ratio, as defined. The agreement also limits our ability to increase the subordinated loan to Supplies Distributors to more than $8.0 million without the lender's approval. The agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb.

In 2003, we entered into a Securities Purchase Agreement with certain institutional investors in a private placement transaction pursuant to which we issued and sold an aggregate of 1.6 million shares of our common stock, par value $.001 per share (the "Common Stock"), at $2.16 per share, resulting in gross proceeds of $3.4 million. After deducting expenses, the net proceeds were approximately $3.2 million. In addition to the Common Stock, the investors received one-year warrants to purchase an aggregate 525,692 shares of Common Stock at an exercise price of $3.25 per share and four-year warrants to purchase an aggregate of 395,486 shares of Common Stock at an exercise price of $3.30 per share. In January 2005, 394,865 of the one-year warrants were exercised prior to their expiration, generating net proceeds to us of $1.3 million. We intend to use the net proceeds from the private placement and warrant exercises for general working capital purposes.

In 2004, to fulfill our obligations under certain new client relationships, we entered into a three-year operating lease arrangement for a new distribution facility in Southaven, MS, near our existing distribution complex in Memphis, TN. Additionally, we incurred additional capital expenditures during 2004, primarily to support the incremental business in this new distribution center. Upon completion, which is expected to occur during the second quarter of 2005, we expect the total capital expenditures to support this facility will total approximately $6 million. We financed a significant portion of these expenditures via a Loan Agreement with the Mississippi Business Finance Corporation (the “MBFC”) pursuant to which the MBFC issued $5 million MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the “Bonds”). The MBFC loaned us the proceeds of the Bonds for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in our new Southaven, Mississippi distribution facility. The primary source of repayment of the Bonds is a letter of credit (the “Letter of Credit”) in the initial face amount of $5.1 million issued by Comerica pursuant to a Reimbursement Agreement between us and Comerica under which we are obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has an initial maturity date of December 2006 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof.

We receive municipal tax abatements in certain locations. During 2004 we received notice from a municipality that we did not satisfy certain criteria necessary to maintain the abatements. We plan to dispute the notice. If the dispute is not resolved favorably, we could be assessed additional taxes for calendar years 2004 and 2005. We have not accrued for the additional taxes, which through March 31, 2005 could be $0.4 million to $0.5 million for 2004 and $0.1 million for 2005, as we do not believe that it is probable that an additional assessment will be incurred.

In April 2005, we entered into a five-year operating lease arrangement for a new distribution facility in Southaven, MS, near our existing facility in Southaven, MS.

On May 9, 2005, a lawsuit was filed in the District Court of Collin County, Texas, by J. Gregg Pritchard, as Trustee of the D.I.C. Creditors Trust, naming the former directors of Daisytek International Corporation and the Company as defendants. Daisytek filed for bankruptcy in May 2003 and the Trust was created pursuant to Daisytek’s Plan of Liquidation. The complaint alleges, among other things, that the spin-off of the Company from Daisytek in December 1999 was a fraudulent conveyance and that Daisytek was damaged thereby in the amount of at least $38 million. We believe the claim has no merit and intend to vigorously defend the action.

Seasonality

The seasonality of our business is dependent upon the seasonality of our clients’ business and sales of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix and their current business volumes, our service fee business activity will be at it lowest in the quarter ended March 31. However due to product release schedule changes from certain of our clients, we believe this seasonal impact will not be as significant in 2005 as it has been in prior years. We anticipate that our product revenue will be highest during the quarter ended December 31.

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

Inflation

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

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, 2004 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

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

Interest Rate Risk

Our interest rate risk is limited to our outstanding balances on our inventory and working capital financing agreements, taxable revenue bonds, loan and security agreements and factoring agreement for the financing of inventory, accounts receivable and certain other receivables and certain equipment, which amounted to $65.2 million at March 31, 2005. A 100 basis point movement in interest rates would result in approximately $0.3 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at March 31, 2005.

Foreign Exchange Risk

Currently, our foreign currency exchange rate risk is primarily limited to the Canadian Dollar and the Euro. In the future, our foreign currency exchange risk may also include other currencies applicable to certain of our international operations. We have and may continue, from time to time, to employ derivative financial instruments to manage our exposure to fluctuations in foreign currency rates. To hedge our net investment and intercompany payable or receivable balances in foreign operations, we may enter into forward currency exchange contracts.

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**	Amendment 5 to Amended and Restated Platinum Plan Agreement
10.2**	Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule
10.3**	Amendment No. 5 to Agreement for Inventory Financing
31.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

** Filed herewith

b) Reports on Form 8-K:

Form 8-K furnished on March 4, 2005 reporting Item 12, Results of Operations and Financial Condition, that on March 4, 2005, PFSweb, Inc. issued a press release announcing its financial results for the year ended December 31, 2004.

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: May 16, 2005

PFSweb, Inc.

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

INDEX TO EXHIBITS

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EXHIBIT 10.1

AMENDMENT 5
TO
AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)

This Amendment 5 (“Amendment”) dated March 30, 2005 is made to the **AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)** by and among **IBM BELGIUM FINANCIAL SERVICES S.A**., with a registered number of R.C. Brussels 451.673 with an address of Avenue du Bourget 42, BE- 1130 Brussels VAT BE 424300467 (**“IBM GF”** or **“us”**), **Suppliers Distributors S.A.** with a registered number of RC Liege 208795 with an address of Rue Louis Blériot 5, B-4460 Gráce-Hollogne, Belgium **(“SDSA”),** and **Business Supplies Distributors Europe BV** a Netherlands company registered in Maastricht with a Netherlands trade registration number of HR Maastricht 14062763 with an address of Dalderhaag 13, 6136 Sittard, The Netherlands **(“BSDE”)** (SDSA and BSDE collectively, **“you”**), **PFS Web B.V** a Netherlands company registered in Maastricht under the number 17109541 with a Belgian trade registration number of R.C. Liege 204162 **(“PFS Web B.V.”)** (SDSA, BSDE and PFS Web B.V. collectively, the **“Loan Parties”**)

RECITALS:

A. The Loan Parties and IBM GF have entered into that certain **AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)** dated as of March 29, 2002 (as amended and modified from time to time, the “Agreement”);

B. The Loan Parties have requested and IBM GF has agreed to extend the Agreement for twelve months;

C. The Loan Parties agree to certain financial covenants revisions by IBM GF; and

D. The parties have agreed to modify the Agreement as more specifically set forth below, upon and subject to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, IBM GF and the Loan Parties hereby agree as follows:

Section 1. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement.

Section 2. Amendment. Subject to Section 4 hereof, the Agreement is hereby amended as follows:

A. The Agreement is hereby amended as follows:

(a) Section 1.1 is hereby amended by adding the following definition:

“Termination Date”: means March 31, 2006 or such other date as to which IBM GF and the Loan Parties may agree from time to time.

(b) Section 8.2.7 is hereby amended by deleting it in its entirety and substituting, in lieu thereof, the following:

“Financial Covenants

You agree to comply with the Financial Covenants, if any, set out in the relevant supplements or the Schedule. You also agree that you will not, without our consent, make any of the following payments ("Restricted Payments") without our prior written consent (i) declare or pay any dividend (other than dividends payable solely in common stock of BSDE and/or SDSA and the aggregate amount of such dividends under this Agreement and the AIF does not cause you or Holdings to violate such Financial Covenants on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of BSDE and/or SDSA or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of BSDE and/or SDSA ; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations)), except as permitted by the Amended and Restated Notes Payable Subordination Agreement. However, as long as you are not in violation with any such Financial Covenants prior to or subsequent to the following transactions, (i) BSDE may pay cash dividends to Supplies Distributors, Inc. up to an amount not to exceed BSDE's liquidation value, and (ii) SDSA may pay cash dividends in an amount not to exceed 600,000 euros to Supplies Distributors, Inc. in fiscal year 2005."

(c) Section 10.1 is hereby amended by deleting it in its entirety and substituting, in lieu thereof, the following:

> "This Agreement will remain in force until the Termination Date. However following the occurrence of an Event of Default that we have not waived in writing we may by notice with immediate effect terminate this Agreement. Upon any termination of this Agreement we shall have all the rights and remedies set out in Clause 9.2 until the complete discharge of all the Loan Parties' obligations to us. Any such termination shall not affect any right we have in relation to the IBM Reimbursables and IBM Receivables or the Receivables Rights and the Supplier Obligations and the Product Rights.

B. The Schedule to the Agreement is hereby amended by deleting such Schedule in its entirety and substituting, in lieu thereof, the Schedule attached hereto. Such new Schedule shall be effective as of the date specified in the new Schedule. The changes contained in the new Schedule include, without limitation, the following:

Credit Line: €12,500,000

VAT Receivables: Deleted from Collateral Valuation

Prepayment Percentage: (i) 80% of Eligible IBM Reimbursables (1) and (ii) 80% or Eligible IBM Receivables

Collateral Value of Stock-in-Trade: (A) 100% of paid for IBM Printing Systems Division inventory (other than (a) machines which IBM Printing Systems Division has declared obsolete at least 60 days prior to the date of determination and (b) service parts) which (i) we have purchased the associated Supplier Invoice from the Authorised Supplier on or after the Closing Date (ii) purchased directly from IBM prior to the Closing Date and not subject to retention of title, provided, however, we have a first priority security interest in such inventory, (iii) is repurchasable under a repurchase agreement with the Authorized Supplier and (iv) is secured and managed through a pledge with Disposition, with coverage percentage acceptable to us (such acceptable percentage to be determined by us within 60 days of the date this Schedule is executed)The value to be assigned to such inventory shall be based upon the Supplier Invoice net of all applicable credit notes.

Financial Covenant Definitions: Changed for net Profit After Tax, Revenue and Working Capital Turnover.

FINANCIAL COVENANTS

SDSA and BSDE will be required, on a consolidated basis, to maintain the following financial ratios, percentages and amounts on a year to date basis as of the last day of the fiscal period under review (quarterly and annually) by us and IBM Credit:

	Covenant	Covenant Requirement
(i)	Debt to Tangible Net Worth	Greater than Zero and Less than 7.0:1.0
(ii)	Net Profit after Tax to Revenue	Greater than 0.10 percent
(iii)	Working Capital Turnover (WCTO)	Greater than Zero and Less than 43.0:1.0

PFSweb, Inc. will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly and annually) by IBM Credit:

	Covenant	Covenant Requirement	Date as of
(i)	Minimum Tangible Net Worth	$18,000,000.00	03/31/04 and beyond

Section 3. Conditions of Effectiveness of Consent and Amendment. This Amendment shall have been authorized, executed and delivered by each of the parties hereto and IBM GF shall have received a copy of a fully executed Amendment.

Section 4. Representations and Warranties. Each Loan Party makes to IBM GF the following representations and warranties all of which are material and are made to induce IBM GF to enter into this Amendment.

Section 4.1 Accuracy and Completeness of Warranties and Representations. All representations made by the Loan Party in the Agreement were true and accurate and complete in every respect as of the date made, and, as amended by this Amendment, all representations made by the Loan Party in the Agreement are true, accurate and complete in every material respect as of the date hereof, and do not fail to disclose any material fact necessary to make representations not misleading.

Section 4.2 Violation of Other Agreements. The execution and delivery of this Amendment and the performance and observance of the covenants to be performed and observed hereunder do not violate or cause any Loan Party not to be in compliance with the terms of any agreement to which such Loan Party is a party.

Section 4.3 Litigation. Except as has been disclosed by the Loan Party to IBM GF in writing, there is no litigation, proceeding, investigation or labor dispute pending or threatened against any Loan Party, which, if adversely determined, would materially adversely affect the Loan Party’s ability to perform such Loan Party’s obligations under the Agreement and the other documents, instruments and agreements executed in connection therewith or pursuant hereto.

Section 4.4 Enforceability of Amendment. This Amendment has been duly authorized, executed and delivered by each Loan Party and is enforceable against each Loan Party in accordance with its terms.

Section 5. Ratification of Agreement. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Each Loan Party hereby ratifies, confirms and agrees that the Agreement, as amended hereby, represents a valid and enforceable obligation of such Loan Party, and is not subject to any claims, offsets or defenses.

Section 6. Ratification of Guaranty. Each of Holdings, SDI, PFSweb and PFS hereby ratify and confirm their respective guaranties in favor of IBM GF and agree that such guaranties remain in full force and effect and that the term "Liabilities", as used therein include, without limitation the indebtedness liabilities and obligations of SDSA and BSDE under the Agreement as amended hereby. SDI hereby ratifies and confirms its Notes Payable Subordination Agreement executed by SDI on March 29, 2002 and confirms such Notes Payable Subordination Agreement remains in full force and effect.

Section 7. Governing Law. This Amendment shall be governed by and interpreted in accordance with the laws which govern the Agreement.

Section 8. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

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

IBM BELGIUM FINANCIAL SERVICES S.A.

By: ______________________

Print Name: ______________________

Title: ______________________

SUPPLIERS DISTRIBUTORS S.A.

By: ______________________

Print Name: ______________________

Title: ______________________

BUSINESS SUPPLIES DISTRIBUTORS EUROPE BV

By: ______________________

Print Name: ______________________

Title: ______________________

PFS WEB B.V.

By: ______________________

Print Name: ______________________

Title: ______________________

The following parties agree to Section 6 as applicable to them.

SUPPLIES DISTRIBUTORS, INC.

By: ______________________

Print Name: ______________________

Title: ______________________

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________

Print Name: ______________________

Title: ______________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: ______________________

Print Name:____

Title:____

EXHIBIT 10.2

Agreement for IBM Global Financing Platinum Plan

Invoice Discounting Schedule

Supplies Distributors S.A./Business Supplies Distributors Europe B.V.

Your Name	Supplies Distributors S.A. and Business Supplies Distributors Europe B.V.	**Schedule Number**	5
Your Number	SDSA — RC Liege 208795 BSDE — HR Maastricht 14062763	**Effective date of Schedule**	30 March 2005
Credit Limit	€12,500,000	**Commencement Date**	27 September 2001
No Charge Period	IBM 45 days	**Prepayment Percentage**	(i) 80% of Eligible IBM Reimbursables (1) (ii) 80% of Eligible IBM Receivables

Collateral Value of Stock-in-Trade

(A) 100% of paid for IBM Printing Sytems Division inventory (other than (a) machines which IBM Printing Systems Division has declared obsolete at least 60 days prior to the date of determination and (b) service parts) which (i) we have purchased the associated Supplier Invoice from the Authorised Supplier on or after the Closing Date (ii) purchased directly from IBM prior to the Closing Date and not subject to retention of title, provided, however, we have a first priority security interest in such inventory, (iii) is repurchasable under a repurchase agreement with the Authorized Supplier and (iv) is secured and managed through a pledge with Dispostion, with coverage percentage acceptable to us (such acceptable percentage to be determined by us within 60 days of the date this Schedule is executed)The value to be assigned to such inventory shall be based upon the Supplier Invoice net of all applicable credit notes.

(B) IBM Ireland is added as Authorised Supplier as well as IBM Endicott and IBM Singapore

FINANCE CHARGES (2)	
Base Rate (3)	EURIBOR
Discount Charge (5)	Base Rate plus 2.0.%
Default Rate	Base Rate plus 7%
Shortfall Fee	0.30% of Shortfall Amount
Banking Transfer Charge	Nil
Service Fee per Notification	N/A
Monthly Service Fee, Set up Fee	€1,500 plus VAT per month
Survey Fee	€5,000 plus VAT per IBM GF survey
Security Filing Fee	Any fees required as a result of Uniform Commercial Code filings in US in connection with Collateralised Guarantees granted by SDI, Holdings and PFS
Unused Line Fee	Equal to thirty seven and one half (37.5) basis points times the weekly average unused portion of the Credit Line, accruable from the closing date and computed on the basis of a 360-day year, payable quarterly in arrears and upon the maturity or termination of the Credit Line
Extended Credit Charge	Base Rate plus 2.00%
REPORTING	
Audited Accounts (4)	90 days after fiscal year
Management (unaudited) Accounts	35 days after fiscal calendar quarter
Collateral Management Report	10 days after calendar month
Aged Creditor Report	10 days after calendar month
Stock Report	10 days after calendar month
Fixed Asset Register	10 days after calendar month
Surveys	A maximum of 4 times per year and not more than one per quarter
Financial Covenant Compliance Certificate from both SDSA and Holdings	45 days after fiscal period
Extended Credit Period	in 10 day increments up to 30 days
Maximum Amount of Prepayments	The maximum principal amount of Prepayments that may be outstanding at any time shall be Euros 1,500,000

ADDITIONAL COLLATERAL	
This Agreement	
Stock Pledge Agreement among Supplies Distributors, Inc (“SDI”), and IBM GF, whereby SDI pledges 65% of its shares in SDSA and BSDE to IBM GF	Amended and Restated Stock Pledge
Liens: Charges: Pledges: Fixed and Floating Charge over all inventory of SDSA and BSDE and Convention de Gage of SDSA to be registered at Commercial Court	As provided by us
Guarantees of payment of amounts due under the agreement.	Amended and Restated Collateralised Guarantees from PFS, Holdings, and SDI Amended and Restated Corporate Guaranty from PFSweb
Amended and Restated Notes Payable Subordination from SDI in respect of SDSA	As provided by us
Opinion of Counsel	a favourable opinion of counsel for Loan Parties (to be provided post closing) in substantially the form provided to you by us satisfactory to us and from counsel satisfactory to it;.
Certificate of Authority	a certificate of the secretary or an assistant secretary of each Loan Party as applicable, certifying that, among other items, (i) BSDE and PFS Web B.V. are duly organized under the laws of the Netherlands and are registered to conduct business in Belgium, (ii) SDSA is duly organized under the laws of the Kingdom of Belgium and registered to do business there (iii) true and complete copies of the articles of incorporation, or corresponding organizational documents, as applicable, and your by-laws are delivered therewith, together with all amendments and addenda thereto as in effect on the date thereof, (iv) the resolution as stated in the certificate is a true, accurate and compared copy of the resolution adopted by your Board of Directors authorizing the execution, delivery and performance of this Agreement and each other document executed and delivered in connection herewith, and (v) the names and true signatures of your officers authorized to sign this Agreement and the other documents;
Miscellaneous	• Listing of all creditors (if any) providing accounts receivable financing to you; • A duly executed compliance certificate as to your compliance with the financial covenants set forth below as of the last fiscal month you have published financial statements; • A copy of an all-risk insurance certificate pursuant to Clause 8.2.5 of the Agreement.

OTHER CONDITIONS

1. Valid and enforceable customary documentation for the Collateral provided by BSDE, SDSA and PFS Web B.V.

2. Any strategic changes in the structure of the group, significant management changes and/or any major changes in Capex/investment plans to be advised to IBM GF immediately.

3. Prepayments under the Platinum Plan are not to be used for early repayment of commercial loans.

4. The Financial Statements of SDSA and BSDA as of Closing Date in form and substance satisfactory to us in our sole discretion;

5. A certified copy of the current organization chart of Loan Parties;

6. Evidence satisfactory to us that UCC-1 statements have been filed against SDI, Holdings and PFS with IBM GF as the Lien holder;

7. IBM Credit is satisfied that all conditions precedent in accordance with the AIF have been met; and

8. Liquidation of BSD Europe B.V. is approved on terms that SDSA acknowledges that it will remain liable solely for all obligations owed or be come owing by both entities currently under this Agreement.

FINANCIAL COVENANTS

SDSA and BSDE will be required, on a consolidated basis, to maintain the following financial ratios, percentages and amounts on a year to date basis as of the last day of the fiscal period under review (quarterly and annually) by us and IBM Credit:

	Covenant	Covenant Requirement
(i)	Debt to Tangible Net Worth	Greater than Zero and Less than 7.0:1.0
(ii)	Net Profit after Tax to Revenue	Greater than 0.10 percent
(iii)	Working Capital Turnover (WCTO)	Greater than Zero and Less than 43.0:1.0

PFSweb, Inc. will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly and annually) by IBM Credit:

	Covenant	Covenant Requirement
(v)	Tangible Net Worth	Greater than $18,000,000.00 for period ending 03/31/04 and beyond.

FINANCIAL COVENANT DEFINITIONS

The following terms shall have the following respective meanings in this Schedule. All amounts shall be determined in accordance with generally accepted accounting principles (GAAP).

"Consolidated Net Income" shall mean, for any period, the consolidated net income (or loss), after taxes, of SDSA and BSDE on a consolidated basis for such period determined in accordance with GAAP.

"Current" shall mean within the ongoing twelve-month period.

"Current Assets" shall mean assets that are cash or expected to become cash within the ongoing twelve months.

“Current Liabilities” shall mean payment obligations resulting from past or current transactions that require settlement within the ongoing twelve-month period. All indebtedness to IBM GF shall be considered a Current Liability for purposes of determining compliance with the Financial Covenants.

“Debt” shall mean all liabilities or obligations to pay another person/company a certain amount at a specified date excluding subordinated debt.

“Long Term” shall mean beyond the ongoing twelve-month period.

“Long Term Assets” shall mean assets that take longer than a year to be converted to cash. They are divided into four categories: tangible assets, investments, intangibles and other.

“Long Term Debt” shall mean payment obligations of indebtedness which mature more than twelve months from the date of determination, or mature within twelve months from such date but are renewable or extendible at the option of the debtor to a date more than twelve months from the date of determination.

“Net Profit after Tax” shall mean Revenue plus all other income, minus all costs (excluding amortization of good will), including applicable taxes, excluding currency adjustments for each period (other than for annual periods to the extent required by GAAP).

“Revenue” shall mean the monetary expression of the aggregate of products or services transferred by an enterprise to its customers (excluding intercompany transactions) for which said customers have paid or are obligated to pay, plus other income as allowed.

“Subordinated Debt” shall mean SDSA’s indebtedness to third parties as evidenced by an executed Notes Payable Subordination Agreement in favor of IBM GF (all Subordinated Debt shall not be considered Current Liabilities).

“Tangible Net Worth” shall mean Total Net Worth minus goodwill

“Total Assets” shall mean the total of Current Assets and Long Term Assets.

“Total Liabilities” shall mean the Current Liabilities and Long Term Debt less Subordinated Debt, resulting from past or current transactions, that require settlement in the future.

“Total Net Worth” (the amount of owner’s or stockholder’s ownership in an enterprise) is equal to Total Assets minus Total Liabilities.

“Working Capital” shall mean Current Assets minus Current Liabilities.

“Working Capital Turnover (WCTO)” shall mean annualised Revenue divided by Working Capital.

Addresses

Pursuant to Clause 11.9 of the Agreement, the following are the addresses of the parties to the Agreement:

(i) if to IBM GF: IBM Belgium Financial Services S.A. Avenue du Bourget , BE- 42 1130 Brussels VAT BE 424300467	(ii) if to SDSA: Supplies Distributors S.A. Rue Louis Blériot 5 B-4460 Gráce-Hollogne Belgium :
(iii) if to BSDE: Business Supplies Distributors Europe BV Dalderhaag 13 6136 KM Sittard The Nederlands	(iv) if to PFS Web B.V. PFS Web B.V. c/o SDSA

Footnotes:

(1) The maximum value for collateral representing IBM Reimbursables is €2 million.

(2) All charges are exclusive of any taxes and duties. You agree to pay all applicable taxes and duties.

(3) "EURIBOR", is the one month rate for Euros determined by the Banking Federation of the European Union appearing on Reuters page 01 at or about 11:00 am (Central European Time) on the relevant day. "Reuters page 01" means the display designated as "Page 01" on the Reuters Service (or such other page as may replace Page 01 on that service or such other service as may replace it). On the first Business Day of a calendar month the Base Rate will be changed to EURIBOR appearing for the last Business Day of the previous calendar month. If at any time, EURIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following Business Day. Charges accruing from day to day will be calculated on the basis of a year of 360 days and the actual number of days elapsed. If the Due Date for payment in Euros is not a day on which settlement in Euros can be effected, the payment will be made on the preceding Business Day on which settlement can be effected.

(4) Audited Accounts within 90 days of fiscal year end. Revised business plans/budgets will also be required at this time to enable an annual facility and covenant review to be effected by us

By signing below all parties accept the terms of the Schedule. This Schedule amends and replaces any Schedule issued and/or dated previously to this one.

Signed on behalf of	**Signed on behalf of**
SUPPLIERS DISTRIBUTORS S.A.	**IBM BELGIUM FINANCIAL SERVICES S.A.**
TVA BE 475.286.142	**TVA BE 424.300.467**
Signed: ______________________	Signed: ______________________
By Name: ______________________	By Name: ______________________
Title: ______________________	Title: ______________________
Signature: ______________________	Signature: ______________________
Date: ______________________	Date: ______________________
BUSINESS SUPPLIES DISTRIBUTORS EUROPE BV	**PFS WEB B.V.**
Signed: ______________________	Signed: ______________________
By Name: ______________________	By Name: ______________________
Title: ______________________	Title: ______________________
Signature: ______________________	Signature: ______________________
Date: ______________________	Date: ______________________

EXHIBIT 10.3

AMENDMENT NO. 5
TO
AGREEMENT FOR INVENTORY FINANCING

This Amendment No. 5 (“Amendment”) to the Agreement for Inventory Financing is made as of February 28, 2005 by and among **IBM Credit LLC**, a Delaware limited liability company, formerly IBM Credit Corporation (“IBM Credit”), **Business Supplies Distributors Holdings, LLC**, a limited liability company duly organized under the laws of the state of Delaware (“Holdings”), **Supplies Distributors, Inc.** (formerly known as BSD Acquisition Corp.), a corporation duly organized under the laws of the state of Delaware (“Borrower”), **Priority Fulfillment Services, Inc.**, a corporation duly organized under the laws of the state of Delaware (“PFS”) and **PFSweb, Inc.**, a corporation duly organized under the laws of the state of Delaware (“PFSweb”) (Borrower, Holdings, PFS, PFSweb, and any other entity that executes this Agreement or any Other Document, including without limitation all Guarantors, are each individually referred to as a “Loan Party” and collectively referred to as “Loan Parties”).

RECITALS:

A. Each Loan Party and IBM Credit have entered into that certain Agreement for Inventory Financing dated as of March 29, 2002 (as amended, supplemented or otherwise modified from time to time, the “Agreement”); and

B. The parties have agreed to modify the Agreement as more specifically set forth below, upon and subject to the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Borrower, the other Loan Parties and IBM Credit hereby agree as follows:

Section 1. Definitions. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement.

Section 2. Amendment.

Subject to the satisfaction of the conditions precedents set forth in Section 3 hereof, the Agreement is hereby amended as follows:

A. Section 1 of the Agreement is hereby amended by amending the definition of “Termination Date” to read in its entirety as follows:

“ ‘Termination Date’: shall mean March 31, 2006 or such other date as IBM Credit and the Borrower may agree to from time to time in writing.”

B. Agreement is further hereby amended by amending by deleting Section 8.6 in its entirety and substituting, in lieu thereof, the following:

“**8.6. Restricted Payments.** Borrower will not, directly or indirectly make any of the following payments (“Restricted Payments”) without prior written consent from IBM Credit, which shall not be unreasonably delayed or denied: (i) declare or pay any dividend (other than dividends payable solely in common stock of Borrower) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Borrower or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations), provided, however, that Borrower (a) may in the ordinary course administration thereof make payments on the revolving loans made by Congress pursuant to the Congress Credit Agreement, except as permitted by the Amended and Restated Notes Payable Subordination Agreement and (b) may in fiscal year 2005 pay cash dividends not to exceed the aggregate of One Million Dollars ($1,000,000.00) plus the United States Dollar equivalent of dividends the Borrower receives in fiscal year 2005 from BSD Europe.**”**

Section 3. Conditions of Effectiveness of Amendment. This Amendment shall become effective upon the receipt by IBM Credit of this Amendment that shall have been authorized, executed and delivered by each of the parties hereto and IBM Credit shall have received a copy of such fully executed Amendment.

Section 4. Representations and Warranties. Each Loan Party makes to IBM Credit the following representations and warranties all of which are material and are made to induce IBM Credit to enter into this Amendment.

Section 4.1 Accuracy and Completeness of Warranties and Representations. All representations made by the Loan Party in the Agreement were true and accurate and complete in every respect as of the date made, and, as amended by this Amendment, all representations made by the Loan Party in the Agreement are true, accurate and complete in every material respect as of the date hereof, and do not fail to disclose any material fact necessary to make representations not misleading.

Section 4.2 Violation of Other Agreements and Consent. The execution and delivery of this Amendment and the performance and observance of the covenants to be performed and observed hereunder (a) do not violate or cause any Loan Party not to be in compliance with the terms of any agreement to which such Loan Party is a party, and (b) require the consent of any Person.

Section 4.3 Litigation. Except as has been disclosed by the Loan Party to IBM Credit in writing, there is no litigation, proceeding, investigation or labor dispute pending or threatened against any Loan Party, which, if adversely determined, would materially adversely affect the Loan Party’s ability to perform such Loan Party’s obligations under the Agreement and the other documents, instruments and agreements executed in connection therewith or pursuant hereto.

Section 4.4 Enforceability of Amendment. This Amendment has been duly authorized, executed and delivered by each Loan Party and is enforceable against each Loan Party in accordance with its terms.

Section 5. Ratification of Agreement. Except as specifically amended hereby, all of the provisions of the Agreement shall remain unamended and in full force and effect. Each Loan Party hereby ratifies, confirms and agrees that the Agreement, as amended hereby, represents a valid and enforceable obligation of such Loan Party, and is not subject to any claims, offsets or defenses.

Section 6. Ratification of Guaranty and Notes Payable Subordination Agreement. Each of Holdings, PFSweb and PFS hereby ratify and confirm their respective guaranties in favor of IBM Credit and agree that such guaranties remain in full force and effect and that the term “Liabilities”, as used therein include, without limitation the indebtedness liabilities and obligations of the Borrower under the Agreement as amended hereby.

Section 7. Governing Law. This Amendment shall be governed by and interpreted in accordance with the laws which govern the Agreement.

Section 8. Counterparts. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement.

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

IBM CREDIT LLC

____

____

[PLEASE PRINT NAME & TITLE]

SUPPLIES DISTRIBUTORS, INC.

____

____

[PLEASE PRINT NAME & TITLE]

PRIORITY FULFILLMENT SERVICES, INC.

____

____

[PLEASE PRINT NAME & TITLE]

PFSWEB, INC.

____

____

[PLEASE PRINT NAME & TITLE]

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC,

By: ______________________________

as Managing Member

____

[PLEASE PRINT NAME & TITLE]

EXHIBIT 31.1

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

I, Mark Layton, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 16, 2005

By: /s/ Mark C. Layton
Chief Executive Officer

EXHIBIT 31.2

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

I, Tom Madden, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 16, 2005

By: /s/ Thomas J. Madden
Chief Financial Officer

EXHIBIT 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of PFSweb, Inc. (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the period ended March 31, 2005 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

May 16, 2005	/s/ Mark C. Layton Mark C. Layton Chief Executive Officer
May 16, 2005	/s/ Thomas J. Madden Thomas J. Madden Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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