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, 2010

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 checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company ☑

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

At May 17, 2010 there were 9,954,957 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2010

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,091	$ 14,812
Restricted cash	1,294	2,096
Accounts receivable, net of allowance for doubtful accounts of $969 and $973 at March 31, 2010 and December 31, 2009, respectively	37,472	39,861
Inventories, net of reserves of $2,011 and $2,016 at March 31, 2010 and December 31, 2009, respectively	34,070	37,949
Other receivables	11,104	11,605
Prepaid expenses and other current assets	4,001	4,170
Total current assets	103,032	110,493
PROPERTY AND EQUIPMENT, net	9,592	10,314
IDENTIFIABLE INTANGIBLES	765	805
GOODWILL	3,602	3,602
OTHER ASSETS	2,403	2,555
Total assets	$119,394	$ 127,769
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 19,652	$ 19,179
Trade accounts payable	46,505	53,642
Deferred revenue	5,236	5,164
Accrued expenses	14,674	13,180
Total current liabilities	86,067	91,165
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	2,172	3,348
OTHER LIABILITIES	3,540	3,903
Total liabilities	91,779	98,416
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; 35,000,000 shares authorized; 9,954,957 and 9,952,164 shares issued at March 31, 2010 and December 31, 2009, respectively; and 9,936,596 and 9,933,803 outstanding at March 31, 2010 and December 31, 2009, respectively	10	10
Additional paid-in capital	93,251	93,152
Accumulated deficit	(67,172)	(65,963)
Accumulated other comprehensive income	1,611	2,239
Treasury stock at cost, 18,361 shares	(85)	(85)
Total shareholders' equity	27,615	29,353
Total liabilities and shareholders' equity	$119,394	$ 127,769

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, 2010	Three Months Ended March 31, 2009
REVENUES:		
Product revenue, net	$ 65,647	$ 66,263
Service fee revenue	15,979	17,119
Pass-through revenue	6,634	5,555
Total net revenues	88,260	88,937
COSTS OF REVENUES:		
Cost of product revenue	60,622	60,832
Cost of service fee revenue	11,454	11,319
Pass-through cost of revenue	6,634	5,555
Total costs of revenues	78,710	77,706
Gross profit	9,550	11,231
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation expense of $96 and $103 in the three months ended March 31, 2010 and 2009, respectively	10,335	10,667
AMORTIZATION OF IDENTIFIABLE INTANGIBLES	35	26
Total operating expenses	10,370	10,693
Income (loss) from operations	(820)	538
INTEREST EXPENSE, NET	262	357
Income (loss) before income taxes	(1,082)	181
INCOME TAX EXPENSE, NET	127	429
NET LOSS	$ (1,209)	$ (248)
NET LOSS PER SHARE:		
Basic and Diluted	$ (0.12)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and Diluted	9,936	9,924

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, 2010	Three Months Ended March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,209)	$ (248)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,635	2,028
Provision for doubtful accounts	24	(174)
Provision for excess and obsolete inventory	202	300
Stock-based compensation	96	103
Changes in operating assets and liabilities:		
Restricted cash	20	3
Accounts receivable	1,850	11,161
Inventories, net	2,810	438
Prepaid expenses, other receivables and other assets	314	(308)
Accounts payable, accrued expenses and other liabilities	(4,545)	(6,903)
Net cash provided by operating activities	1,197	6,400
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(886)	(1,215)
Net cash used in investing activities	(886)	(1,215)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(387)	(390)
Decrease (increase) in restricted cash	781	(163)
Proceeds from issuance of common stock	4	5
Payments on debt, net	(213)	(5,253)
Net cash provided by (used in) financing activities	185	(5,801)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(217)	24
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	279	(592)
CASH AND CASH EQUIVALENTS, beginning of period	14,812	16,050
CASH AND CASH EQUIVALENTS, end of period	$ 15,091	$ 15,458
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$ 28	$ 66

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

PFSweb Overview

PFSweb is an international business process outsourcing provider of end-to-end eCommerce solutions to major brand name companies seeking to optimize their supply chain and to enhance their traditional and online business channels and 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, PFSweb and InfoPrint Solutions Company ("IPS"), a joint venture company owned by Ricoh and International Business Machines Corporation ("IBM"), have entered into master distributor agreements under which Supplies Distributors acts as a master distributor of various products, primarily IPS product.

Supplies Distributors has obtained certain financing that allows it to fund the working capital requirements for the sale of primarily IPS products. Pursuant to the transaction management services agreements between PFSweb and Supplies Distributors, PFSweb provides to Supplies Distributors transaction management and fulfillment services such as managed web hosting and maintenance, procurement support, web-enabled customer contact center services, customer relationship management, financial services including billing and collection services, information management, and international distribution services. Supplies Distributors does not have its own sales force and relies upon IPS' sales force and product demand generation activities for its sale of IPS products. Supplies Distributors sells its products in the United States, Canada and Europe.

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

eCOST Overview

eCOST is a multi-category online discount retailer of new, "close-out" and recertified brand-name merchandise, selling products primarily to customers in the United States. eCOST offers products in several merchandise categories, including computers, networking, electronics and entertainment, TV's, monitors and projectors, cameras and camcorders, memory and storage, "For the Home" and sports and leisure. eCOST carries products from leading manufacturers such as Sony, JVC, Canon, Hewlett-Packard, Denon, Cuisinart, Sennheiser, Garmin, Panasonic, Toshiba and Microsoft.

The Company's liquidity has been negatively impacted as a result of the merger with eCOST. Since the merger, eCOST has experienced a net use of cash primarily due to operating losses. As a result, the Company has had to support eCOST's cash needs with the goal of reducing losses. The amount of additional cash needed to support eCOST operations will depend upon working capital requirements, bank financing availability as well as eCOST's continued ability to improve its financial results. Further advances to eCOST may be limited by the Company's current cash and future cash flow and may be restricted by the Company's credit facility obligations.

In the event eCOST is unable to increase its revenue and/or gross profit from its present levels, it may fail to comply with one or more of the financial covenants required under its working capital line of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and demand for payment under the Company parent guaranty. Any acceleration of the repayment of the credit facility 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.

Management currently believes eCOST will meet the Company's expectations related to improved overall profitability. If eCOST does not meet expectations to become profitable, the Company anticipates that it would be able to terminate or sublease eCOST's facilities, liquidate remaining inventory through the eCOST website and reduce certain personnel related costs as needed so as to minimize any material impact upon the Company's other segments.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of March 31, 2010, and for the three months ended March 31, 2010 and 2009, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and note 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, 2010, its results of operations for the three months ended March 31, 2010 and 2009 and its cash flows for the three months ended March 31, 2010 and 2009. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

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 and related disclosures in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The recognition and allocation of certain revenues and operating expenses in these consolidated financial statements also require management estimates and assumptions.

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 in the section entitled "Risk Factors."

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's consolidated financial statements are fairly stated in accordance with generally accepted accounting principles in the United States of America, and provide a fair presentation of the Company's financial position and results of operations.

Investment in Affiliates

Priority Fulfillment Services, Inc. ("PFS"), a wholly-owned subsidiary of PFSweb, Inc., has made advances to Supplies Distributors that are evidenced by a Subordinated Demand Note (the "Subordinated Note"). Under the terms of certain of the Company's debt facilities, the outstanding balance of the Subordinated Note cannot be increased to more than $5.5 million or decreased to less than $4.3 million without prior approval of the Company's lenders. As of both March 31, 2010 and December 31, 2009, the outstanding balance of the Subordinated Note was $5.0 million. The Subordinated Note is eliminated in the Company's consolidated financial statements.

PFS has also made advances to eCOST, which aggregated $11.1 million as of March 31, 2010 and $10.9 million as of December 31, 2009. Certain terms of the Company's debt facilities provide that the total advances to eCOST may not be less than $2.0 million without prior approval of eCOST's lender. PFS has received the approval of its lender to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of its subsidiaries and/or affiliates, including eCOST, if needed. PFSweb has also advanced to eCOST an additional $5.0 million as of both March 31, 2010 and December 31, 2009.

Concentration of Business and Credit Risk

The Company's service fee revenue is generated under contractual service fee relationships with multiple client relationships. No service fee client or product revenue customers exceeded 10% of consolidated total net revenue during the three months ended March 31, 2010. A summary of the nonaffiliated customer and client concentrations is as follows:

	Three Months Ended	
	March 31, 2010	March 31, 2009
Product Revenue (as a percentage of Product Revenue):		
Customer 1	11%	13%
Service Fee Revenue (as a percentage of Service Fee Revenue):		
Client 1	14%	13%
Client 2	14%	9%
Client 3	—%	22%
Accounts Receivable:		
Client/Customer 1	10%	6%
Client/Customer 2	8%	10%

Client 3 did not renew its contract with PFS effective January 2009, though certain project work continued to occur through April 2009. PFS currently operates three distinct geographical contract arrangements with Client 1, which are aggregated in the service fee revenue percentages reflected above. Client 1 has notified PFS that it is not renewing substantially all of its contracts with PFS which expire during 2010.

PFSweb has provided certain collateralized guarantees of its subsidiaries' financings and credit arrangements. These subsidiaries' ability to obtain financing on similar terms would be significantly impacted without these guarantees.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

The Company has multiple arrangements with IBM and IPS 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 and certain of Supplies Distributors' working capital financing agreements. Substantially all of the Supplies Distributors' revenue is generated by its sale of product purchased from IPS. Supplies Distributors also relies upon IPS' sales force and product demand generation activities and the discontinuance of such services would have a material impact upon Supplies Distributors' business. In addition, Supplies Distributors has product sales to IBM and IPS business units and the Company has an IBM term master lease agreement.

eCOST's arrangements with its vendors are terminable by either party at will. Loss of any vendors could have a material adverse effect on eCOST's financial position, results of operations and cash flows. Sales of HP and HP-related products represented 58% of eCOST's net revenues (13% of the Company's consolidated total net revenues) in the three months ended March 31, 2010 and 42% of eCOST's net revenues (10% of the Company's consolidated total net revenues) in the comparable 2009 period.

Inventories

The Company establishes inventory reserves based upon estimates of declines in values due to inventories that are slow moving or obsolete, excess levels of inventory or values assessed at lower than cost. Recoverability of the inventory on hand is measured by comparison of the carrying value of the inventory to the fair value of the inventory.

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. In the event PFSweb, Supplies Distributors and IPS 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.

Property and Equipment

The Company's property held under capital leases amounted to approximately $1.8 million and $2.1 million, net of accumulated amortization of approximately $7.1 million and $6.7 million, at March 31, 2010 and December 31, 2009, respectively.

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately $0.2 million and $0.4 million during the three months ended March 31, 2010 and 2009, respectively. Income taxes of approximately $25,000 and $0.2 million were paid by the Company during the three months ended March 31, 2010 and 2009, respectively.

Impact of Recently Issued Accounting Standards

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, *Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force* to amend certain guidance in *FASB Accounting Standards Codification*™ (ASC) 605, *Revenue Recognition*, 25, "Multiple-Element Arrangements". The amended guidance in ASC 605-25 (1) modifies the separation criteria by eliminating the criterion that requires objective and reliable evidence of fair value for the undelivered item(s), and (2) eliminates the use of the residual method of allocation and instead requires that arrangement consideration be allocated, at the inception of the arrangement, to all deliverables based on their relative selling price.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

The FASB also issued ASU 2009-14, *Certain Revenue Arrangements That Include Software Elements — a consensus of the FASB Emerging Issues Task Force*, to amend the scope of arrangements under ASC 985, *Software*, 605, “Revenue Recognition” to exclude tangible products containing software components and non-software components that function together to deliver a product’s essential functionality.

The amended guidance in ASC 605-25 and ASC 985-605 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early application and retrospective application permitted. The Company is in the process of evaluating the impact the amendments to ASC 605-25 and ASC 985-605 will have on its consolidated financial statements.

3. *COMPREHENSIVE LOSS (in thousands)*

	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Net loss	$ (1,209)	$ (248)
Other comprehensive loss:		
Foreign currency translation adjustment	(628)	(685)
Comprehensive loss	$ (1,837)	$ (933)

4. NET LOSS PER COMMON SHARE

Basic and diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the reporting period. For the three months ended March 31, 2010 and 2009, outstanding options to purchase common shares of 1.8 million and 1.4 million, respectively, were anti-dilutive and have been excluded from the diluted weighted average share computation.

5. *VENDOR FINANCING:*

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

	March 31, 2010	December 31, 2009
Inventory and working capital financing agreements:		
United States	$ 13,437	$ 16,073
Europe	15,396	15,649
Total	$ 28,833	$ 31,722

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 IPS products in the United States, providing financing for eligible IPS inventory and certain receivables up to $30.5 million through its expiration in April 2011. As of March 31, 2010, Supplies Distributors had $3.0 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 (including entities directly or indirectly owned by PFSweb, Inc.), 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 certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $3.5 million and a minimum shareholders’ equity of $18.0 million. Borrowings under the

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (3.75% as of March 31, 2010). The facility also includes a monthly service fee. Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, the Company has classified the outstanding amounts under this facility as accounts payable in the consolidated balance sheets.

Inventory and Working Capital Financing Agreement, Europe

Supplies Distributors' European subsidiary has a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance its distribution of IPS products in Europe. The asset based credit facility with IBM Belgium provides up to 16.0 million euros (approximately $21.6 million as of March 31, 2010) in inventory financing and cash advances based on eligible inventory and accounts receivable through its expiration in April 2011. As of March 31, 2010, Supplies Distributors' European subsidiaries had 2.2 million euros (approximately $3.0 million as of March 31, 2010) of available credit. 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 (including entities directly or indirectly owned by PFSweb, Inc.), 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 certain of the assets of Supplies Distributors' European subsidiary, 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 $3.5 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest at Euribor plus 1.94% for cash advances, and, after a defined free financing period, at Euribor plus 4.25% for inventory financings. As of March 31, 2010, the interest rate was 4.7% on the $15.4 million of outstanding inventory financings. Supplies Distributors' European subsidiary pays a monthly service fee on the commitment. Given the structure of this facility and as outstanding inventory financing balances are repaid within twelve months, the Company has classified the outstanding inventory financing amounts under this facility 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, 2010	December 31, 2009
Loan and security agreements, United States		
Supplies Distributors	$ 7,515	$ 8,921
PFS	7,000	6,000
Credit facility — eCOST	—	—
Factoring agreement, Europe	2,056	1,074
Taxable revenue bonds	1,600	2,400
Master lease agreements	2,845	3,467
Other	808	665
Total	21,824	22,527
Less current portion of long-term debt	19,652	19,179
Long-term debt, less current portion	$ 2,172	$ 3,348

Loan and Security Agreement — Supplies Distributors

Supplies Distributors has a loan and security agreement with Wachovia Bank, N.A. ("Wachovia") to provide financing for up to $25 million of eligible accounts receivable in the United States and Canada. As of March 31, 2010, Supplies Distributors had $2.3 million of available credit under this agreement. The Wachovia facility expires on the earlier of March 2011 or the date on which the parties to the IPS master distributor agreement no longer operate under the terms of such agreement and/or IPS no longer supplies products pursuant to such agreement. Borrowings under the Wachovia facility accrue interest at prime rate plus 0.25% to 0.75% (3.75% as of March 31, 2010) or Eurodollar rate plus 2.5% to 3.0%, dependent on excess availability and subject to a minimum of 3.0%, as defined. The interest rate as of March 31, 2010 was 3.75% for $4.5 million of outstanding borrowings and 3.0% for $3.0 million of outstanding borrowings. This agreement contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), 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, PFS is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than $4.3 million and may not maintain restricted cash of more 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 Wachovia pursuant to which a security interest was granted to Wachovia for all U.S. and Canadian customer remittances received in specified bank accounts. At March 31, 2010 and December 31, 2009, these bank accounts held $0.3 million and $1.0 million, respectively, which was restricted for payment to Wachovia.

Loan and Security Agreement — PFS

PFS has a Loan and Security Agreement (“Comerica Agreement”) with Comerica Bank (“Comerica”). The Comerica Agreement provides for up to $10.0 million of eligible accounts receivable financing through March 2011. As of March 31, 2010, PFS had $2.6 million of available credit under this facility. Borrowings under the Comerica Agreement accrue interest at a defined rate, which will generally be prime rate plus 2%, with a minimum of 4.5% (5.25% at March 31, 2010). 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 (including entities directly or indirectly owned by PFSweb, Inc.), make capital expenditures, 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 receivable from Supplies Distributors to a maximum of $5.5 million. Comerica has provided approval for PFS to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of its subsidiaries and/or affiliates, including eCOST, if needed. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb, Inc.

Credit Facility — eCOST

eCOST has an asset-based line of credit facility of up to $7.5 million from Wachovia, through May 2011, which is collateralized by substantially all of eCOST’s assets. Borrowings under the facility are limited to a percentage of eligible accounts receivable and inventory. Outstanding borrowings under the facility bear interest at rates ranging prime rate plus 0.75% to 1.25% or Eurodollar rate plus 3.0% to 4.0%, depending on eCOST’s financial results. There were no outstanding borrowings as of March 31, 2010. As of March 31, 2010, eCOST had $1.0 million of letters of credit outstanding and $1.3 million of available credit under this facility. In connection with the line of credit, eCOST entered into a cash management arrangement whereby eCOST’s operating amounts are considered restricted and swept and used to repay outstanding amounts under the line of credit. As of March 31, 2010 and December 31, 2009, the restricted cash amount was $0.2 million in each period. The credit facility restricts eCOST’s ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb, Inc.), make investments and loans, pledge assets, make changes to capital stock ownership structure, and requires a minimum tangible net worth of $0 million, as defined. PFSweb has guaranteed all current and future obligations of eCOST under this line of credit.

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 $10.1 million as of March 31, 2010) of eligible accounts receivables through March 2011. As of March 31, 2010, Supplies Distributors' European subsidiary had approximately 0.7 million euros (approximately $0.9 million as of March 31, 2010) of available credit under this agreement. Borrowings accrue interest at Euribor plus 1.2% (1.6% at March 31, 2010). 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

PFS has a Loan Agreement with the Mississippi Business Finance Corporation (the "MBFC") in connection with the issuance by the MBFC of 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 PFS for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in one of the Company's Southaven, Mississippi distribution facilities. The Bonds bear interest at a variable rate (0.5% as of March 31, 2010), as determined by Comerica Securities, as Remarketing Agent. PFS, 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") issued by Comerica pursuant to a Reimbursement Agreement between PFS and Comerica under which PFS is obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has a maturity date of April 2011 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof. If the Letter of Credit is renewed or replaced, the Bonds require future annual principal repayments of $800,000 in January of 2011 and 2012. PFS' obligations under the Reimbursement Agreement are secured by substantially all of the assets of PFS, including restricted cash of $0.7 million and a Company parent guarantee.

Debt Covenants

To the extent the Company or any of its subsidiaries fail to comply with covenants applicable to its debt or vendor financing obligations, including the monthly financial covenant requirements and required level of shareholders' equity or net worth, and one or all of the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. In particular, in the event eCOST is unable to increase its revenue and/or gross profit from its present levels, or if PFS service fee revenue declines from expected levels and it is unable to reduce costs to correspond to such reduced revenue levels or if Supplies Distributors revenue or gross profit declines from expected levels, such events may result in a breach of one or more of the financial covenants required under its working capital line of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and demand for payment under the Company parent guaranty. 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. As of March 31, 2010, the Company was in compliance with all debt covenants.

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 three years. The amounts outstanding under this Master Lease Agreement ($1.3 million as of March 31, 2010 and $1.6 million as of December 31, 2009) are secured by the related equipment.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

The Company has two other master agreements with financing companies that provide for leasing or financing transactions of certain equipment. The amounts outstanding under these agreements were $0.8 million and $0.9 million as of March 31, 2010 and December 31, 2009, respectively, and are secured by the related equipment.

The Company has other leasing and financing agreements and will continue to enter into those arrangements 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 three operating segments: PFSweb is an international provider of integrated eCommerce and business process outsourcing solutions and operates as a service fee business; Supplies Distributors is a master distributor primarily of IPS products; and eCOST is a multi-category online discount retailer of new, “close-out” and recertified brand-name merchandise.

	Three Months Ended March 31,	
	2010	2009
Revenues (in thousands):		
PFSweb	$ 24,316	$ 24,764
Supplies Distributors	45,502	45,331
eCOST	20,145	20,932
Eliminations	(1,703)	(2,090)
	$ 88,260	$ 88,937
Income (loss) from operations (in thousands):		
PFSweb	$ (1,479)	$ (403)
Supplies Distributors	1,013	1,416
eCOST	(354)	(475)
Eliminations	—	—
	$ (820)	$ 538
Depreciation and amortization (in thousands):		
PFSweb	$ 1,530	$ 1,935
Supplies Distributors	8	10
eCOST	97	83
Eliminations	—	—
	$ 1,635	$ 2,028
Capital expenditures (in thousands):		
PFSweb	$ 876	$ 1,158
Supplies Distributors	—	—
eCOST	10	57
Eliminations	—	—
	$ 886	$ 1,215

	March 31, 2010	December 31, 2009
Assets (in thousands):		
PFSweb	$ 62,545	$ 65,716
Supplies Distributors	64,840	69,291
eCOST	13,276	13,579
Eliminations	(21,267)	(20,817)
	$119,394	$ 127,769

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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. In December 2006, the Company received notice that the municipal authority planned to make an adjustment to the Company's tax abatement. The Company has disputed the adjustment as of March 31, 2010, but if the dispute is not resolved favorably, additional property taxes of approximately $1.7 million could be assessed against the Company.

Pursuant to the terms of certain contractual agreements with certain of eCOST's vendors, the vendor has the right to inspect and audit eCOST's books and records relating to sales of such vendor's products to verify eCOST's compliance with any terms and conditions imposed by such vendor upon the resale of such products. Under certain circumstances, eCOST may be subject to certain contractual defined liabilities and obligations in the event the results of such audit determine noncompliance by eCOST with such terms and conditions. In April 2010, an audit was conducted by an eCOST vendor to determine compliance by eCOST with such vendor's terms and conditions. As of the date of this Report, eCOST has not received the results of such audit or any further information from such vendor. No assurance can be given that the results of such audit, or any claim asserted by the vendor in connection therewith, will not have a material adverse effect upon the Company's financial condition or results of operations.

In April 2010, a sales employee of eCOST was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately $620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. Shortly thereafter, the Company received a subpoena from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and the Company provided such information and is fully cooperating with the Office of the U.S. Attorney. The Company has commenced its own investigation into the actions of the employee. Neither the Company nor eCOST has been charged with any criminal activity, and eCOST intends to seek the recovery or reimbursement of the funds. Based on the information available to date, eCOST is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of eCOST to recover such funds or any significant portion thereof, will not have a material adverse effect upon the Company's financial condition or results of operations.

The Company is subject to claims in the ordinary course of business, including claims of alleged infringement by the Company or its subsidiaries of the patents, trademarks and other intellectual property rights of third parties. In particular, eCOST and other manufacturers, distributors and retailers of consumer electronic and computer products, may be subject to claims of patent holders alleging that the manufacture, distribution and sale of such products infringe their patents. eCOST, together with other manufacturers, distributors and retailers, is currently the subject of two such claims. The Company does not believe such claims will have a material adverse effect upon the Company's financial condition or results of operations.

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, 2009, 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 International Business Machines Corporation ("IBM") and InfoPrint Solutions Company ("IPS"), a joint venture company owned by Ricoh and 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 e-commerce, outsourcing, government regulation both foreign and domestic and the market for our services;
- whether we can continue and manage growth;
- 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 reliance on third-party subcontracted services;
- the unknown effects of possible system failures and rapid changes in technology;
- 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 changes in existing accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing;
- our ability and the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants;
- relationship with and our guarantees of certain of the liabilities and indebtedness of our subsidiaries;
- taxation on the sale of our products;
- eCOST's ability to maintain existing and build new relationships with manufacturers and vendors and the success of its advertising and marketing efforts;
- eCOST's ability to increase its sales revenue and sales margin and improve operating efficiencies;
- eCOST's ability to generate projected cash flows sufficient to cover the values of its intangible assets; and
- whether the contingencies noted in Note 8 of our unaudited financial statements included in this report have a material adverse effect upon our financial condition or results of operations.

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.

Overview

We are an international business process outsourcing provider of end-to-end eCommerce solutions. We provide these solutions to major brand name companies seeking to optimize their supply chain and to enhance their traditional and online business channels and initiatives. Through our eCOST.com® business unit, we are also a leading multi-category online discount retailer of new, “close-out” and recertified brand-name merchandise. We derive our revenues from three business segments: eCommerce and business process outsourcing, master distribution and an online discount retailing.

First, in our eCommerce and business process outsourcing segment, we derive our revenues from a broad range of services, including professional consulting, technology collaboration, order management, managed web hosting and web development, the development of an eCommerce technology platform, 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, cosmetics, fragile goods, contemporary home furnishings, apparel, aviation, telecommunications and consumer electronics, among others.

In this eCommerce and business process outsourcing 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 IPS 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 approximately $89 million of available financing.

Our third business segment is a web-commerce product revenue model focused on the sale of products to a broad range of consumer and small business customers. In this segment we operate as a multi-category online discount retailer of new, “close-out” and recertified brand-name merchandise. Our product line currently offers approximately 280,000 products in several primary merchandise categories, primarily including computers, networking, electronics and entertainment, TV’s, monitors and projectors, cameras and camcorders, memory and storage, “For the Home” and sports and leisure.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our eCommerce and business process outsourcing segment is driven by two main elements: new client relationships and organic growth from existing clients. We focus our sales efforts on larger contracts with brand-name companies within two primary target markets, online brands and retailers and technology manufacturers, which, by nature, require a longer duration to close but also have the potential to be higher-quality and longer duration engagements.

Growth within our product revenue business is primarily driven by our ability to attract new master distributor arrangements with IPS or other manufacturers and the sales and marketing efforts of the manufacturers and third party sales partners.

Growth within our web-commerce product revenue model is primarily driven by eCOST's ability to increase sales by generating organic growth, attracting new customers and expanding its product line.

We continue to monitor and control our costs to focus on profitability. While we are targeting our new service fee contracts to yield increased gross profit, we also expect to incur 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) operating expenses.

Cost of product revenues — 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 vendors 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. Vendor marketing programs, such as co-op advertising, also reduce cost of product revenue.

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.

Operating expenses — consist primarily of selling, general and administrative ("SG&A") expenses such as compensation and related expenses for sales and marketing staff, advertising, online marketing and catalog production, distribution costs (excluding freight) applicable to the Supplies Distributors and eCOST businesses, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses.

Results of Operations

For the Interim Periods Ended March 31, 2010 and 2009

The following table sets forth certain historical financial information from our unaudited interim condensed consolidated statements of operations expressed as a percent of net revenues (in millions):

	Three Months Ended March 31,				
				% of Net Revenues	
	2010	2009	Change	2010	2009
Revenues:					
Product revenue, net	$ 65.7	$ 66.3	$ (0.6)	74.4%	74.5%
Service fee revenue	16.0	17.1	(1.1)	18.1%	19.2%
Pass-through revenue	6.6	5.5	1.1	7.5%	6.3%
Total net revenues	88.3	88.9	(0.6)	100.0%	100.0%
Cost of Revenues					
Cost of product revenue (1)	60.6	60.9	(0.3)	92.3%	91.8%
Cost of service fee revenue (2)	11.5	11.3	0.2	71.7%	66.1%
Pass-through cost of revenue (3)	6.6	5.5	1.1	100.0%	100.0%
Total cost of revenues	78.7	77.7	1.0	89.2%	87.4%
Product revenue gross profit	5.1	5.4	(0.3)	7.7%	8.2%
Service fee gross profit	4.5	5.8	(1.3)	28.3%	33.9%
Pass-through gross profit	—	—	—	—%	—%
Total gross profit	9.6	11.2	(1.6)	10.8%	12.6%
Operating Expenses	10.4	10.7	(0.3)	11.7%	12.0%
Income from operations	(0.8)	0.5	(1.3)	(0.9)%	0.6%
Interest expense, net	0.3	0.3	—	0.3%	0.4%
Income before income taxes	(1.1)	0.2	(1.3)	(1.2)%	0.2%
Income tax expense, net	0.1	0.4	(0.3)	0.1%	0.5%
Net income (loss)	$ (1.2)	$ (0.2)	$ (1.0)	(1.3)%	(0.3)%

(1) % of net revenues represents the percent of Product revenue, net.

(2) % of net revenues represents the percent of Service fee revenue.

(3) % of net revenues represents the percent of Pass-through revenue.

Product Revenue, net. eCOST product revenue was $20.2 million in the three months ended March 31, 2010, a 3.8% decrease as compared to $20.9 million in the comparable quarter of the prior year. The decrease is primarily due to the continued impact of the current economic environment.

Supplies Distributors product revenue of $45.5 million increased $0.2 million, or 0.4%, in the three months ended March 31, 2010 as compared to the same quarter of the prior year.

Service Fee Revenue. Service fee revenue of $16.0 million decreased $1.1 million, or 6.7%, in the three months ended March 31, 2010 as compared to the same quarter of the prior year. The decrease in service fee revenue for the three months ended March 31, 2010 is primarily due to the non-renewal of certain service contract relationships, including the non-renewal of a U.S. government agency client relationship, which ended in early 2009, partially offset by increased service fees generated from new service contract relationships. The change in service fee revenue is shown below ($ millions):

	Three Months
Period ended March 31, 2009	$ 17.1
New service contract relationships	4.3
Change in existing client service fees	1.2
Terminated clients not included in 2010 revenue	(6.6)
Period ended March 31, 2010	$ 16.0

The service fee revenue for the current year period includes approximately $2 million of revenue generated from clients who have given notice of their intent to terminate their contractual relationship with the Company during 2010.

Cost of Product Revenue. The gross margin for eCOST was $1.8 million or 8.9% of product revenue in the three months ended March 31, 2010 and $2.1 million or 9.8% of product revenue during the comparable period of 2009. The decline in gross margin is primarily due to a decrease in sales from within the higher margin business to consumer sales channel. We are targeting an increasing percentage of eCOST revenues to be generated from the business-to-consumer channel, although we continue to strive to improve our product sales and gross margin in our business-to-business channel.

Supplies Distributors cost of product revenue increased by $0.3 million, or 0.8%, to $42.3 million in the three months ended March 31, 2010 primarily as a result of increased product sales. The resulting gross profit margin was $3.2 million, or 7.7% of product revenue, for the three months ended March 31, 2010 and $3.4 million, or 7.5% of product revenue, for the comparable 2009 period. The three month periods ending March 31, 2010 and 2009 include the impact of certain incremental gross margin earned on product sales resulting from certain product price increases and the impact of certain incremental inventory cost reductions.

Cost of Service Fee Revenue. Gross profit as a percentage of service fees was 28.3% in the three months ended March 31, 2010, compared to 33.9% in the same period of the prior year. The margin in the prior year period includes the benefit of three months of higher margin incremental project work associated with the U.S. government contract relationship that was not renewed and was completed in the second quarter of 2009.

We target to earn an overall average gross profit of 25-30% on existing and new service fee contracts, but we have and may continue to accept lower gross margin percentages on certain contracts depending on contract scope and other factors.

Operating Expenses. Operating expenses for the three months ended March 31, 2010 decreased $0.4 million to $10.3 million from $10.7 million in the same 2009 period. As a percentage of total net revenue, operating expenses were 11.7% in the three months ended March 31, 2010 and 12.0% in the prior year period.

Income Taxes. We recorded a tax provision associated primarily with state income taxes and our subsidiary Supplies Distributors’ Canadian and European operations. A valuation allowance has been provided for the majority of our net deferred tax assets as of March 31, 2010 and December 31, 2009, which are primarily related to our net operating loss carryforwards, and certain foreign deferred tax assets. We expect that we will continue to record an income tax provision associated with state income taxes and Supplies Distributors’ Canadian and European results of operations.

Liquidity and Capital Resources

Net cash provided by operating activities was $1.2 million for the three months ended March 31, 2010, and primarily resulted from a decrease in inventories of $2.8 million, a $1.9 million decrease in accounts receivable and cash income before working capital changes of $0.7 million partially offset by a $4.5 million decrease in accounts payable, accrued expenses and other liabilities.

Net cash provided by operating activities was $6.4 million for the three months ended March 31, 2009, and primarily resulted from cash income before working capital changes of $2.0 million and an $11.2 million decrease in accounts receivable, partially offset by a $6.9 million decrease in accounts payable, accrued expenses and other liabilities.

Net cash used in investing activities for the three months ended March 31, 2010 and 2009 totaled $0.9 million and $1.2 million, respectively, resulting from capital expenditures.

Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, development of customized technology solutions to support and integrate with our service fee clients, and general expansion and upgrades to 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 our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $4 to $7 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 client reimbursements, debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financing or achieve the financial results necessary to support such investments.

Net cash provided by financing activities was approximately $0.2 million for the three months ended March 31, 2010, representing a decrease in restricted cash partially offset by payments on debt and capital lease obligations.

Net cash used in financing activities was approximately $5.8 million for the three months ended March 31, 2009, primarily representing payments on debt and capital lease obligations.

Our liquidity has been negatively impacted as a result of the merger with eCOST. Since the merger, eCOST has experienced a net use of cash primarily due to operating losses. As a result, PFSweb has had to support eCOST's cash needs with the goal of reducing operating losses. The amount of further cash needed to support eCOST operations will depend upon the financing available as well as eCOST's ability to improve its financial results. eCOST's results, excluding the impact of any non-cash impairment charges, have improved in recent years, and we expect continued improvement as a result of efforts to increase sales, improve product mix and further improve operational efficiencies.

Our liquidity has also been negatively impacted by a decline in service fee revenue due to the current general economic decline as well as the nonrenewal of a U.S. government agency contract and certain other client contracts. To help minimize the impact of lower service fee revenue, we have implemented certain measures that reduced variable costs and expenses and redeployed existing infrastructure to other client activities. No assurance can be given that a further decline in service fee revenue will not have a material adverse effect upon our business, financial condition or results of operations.

During the three months ended March 31, 2010, our working capital decreased to $17.0 million from $19.3 million at December 31, 2009 partially due to the paydown of debt facilities along with the impact of certain technology and development costs incurred during 2010 that were prepaid by certain clients in 2009. Working capital as of December 31, 2009 included the benefit from certain clients paying implementation fees in 2009 applicable to technology and development costs that we are incurring in 2010. 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. We currently believe our cash position, financing available under our credit facilities and funds generated from operations (including cost reductions related to the nonrenewal or termination of one or more service fee contracts) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries Supplies Distributors and eCOST, if necessary, for at least the next twelve months.

During the past two years, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States and foreign governments. While the ultimate outcome of these events cannot be predicted, they may have a material adverse effect on our liquidity, financial condition, results of operations and our ability to renew our credit facilities.

In support of certain debt instruments and leases, as of March 31, 2010, we had $1.3 million of cash restricted for repayment to lenders. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain of our subsidiaries' credit facilities. Many of these facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other credit facilities and agreements. These covenants include minimum levels of net worth for the individual borrower subsidiaries and restrictions on the ability of the borrower subsidiaries to advance funds to other borrower subsidiaries. As a result, it is possible for one or more of these borrower subsidiaries to fail to meet their respective covenants even if another borrower subsidiary otherwise has available excess funds, which, if not restricted, could be used to cure the default. 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. In particular, in the event eCOST is unable to increase its revenue and/or gross profit from its present levels, or if PFS service fee revenue declines from expected levels and it is unable to reduce costs to correspond to such reduced revenue levels or if Supplies Distributors revenue or gross profit declines from expected levels, such events may result in a breach of one or more of the financial covenants required under its working capital lines of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and payment under our parent guaranty. A 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, 2010, we were in compliance with all debt covenants. Further, any non-renewal of any of our credit facilities would have a material adverse impact on our business and financial condition. 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.

To finance their distribution of IPS products, Supplies Distributors and its subsidiaries have short-term credit facilities with IBM Credit LLC ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium"). We have provided a collateralized guaranty to secure the repayment of these credit facilities. These asset-based credit facilities provided financing for up to $30.5 million and up to 16 million euros (approximately $21.6 million as of March 31, 2010) with IBM Credit and IBM Belgium, respectively. These agreements expire in April 2011.

Supplies Distributors also has a loan and security agreement with Wachovia Bank, N.A. ("Wachovia") to provide financing for up to $25 million of eligible accounts receivables in the United States and Canada. The Wachovia facility expires on the earlier of March 2011 or the date on which the parties to the IPS master distributor agreement no longer operate under the terms of such agreement and/or IPS 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 $10.1 million as of March 31, 2010) of eligible accounts receivables through March 2011.

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, investments and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), 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 $4.3 million, not maintain restricted cash of more 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 and IPS, excluding the trade payables that are financed by IBM credit.

Our subsidiary, Priority Fulfillment Services, Inc. ("PFS"), has a Loan and Security Agreement ("Agreement") with Comerica Bank ("Comerica"), which provides for up to $10 million of eligible accounts receivable financing through March 2011. We entered this Agreement to supplement our existing cash position, and provide funding for our current and 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 subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb, Inc.), make capital expenditures, 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 agreement also limits PFS' ability to increase the subordinated loan to Supplies Distributors to more than $5.5 million and permits PFS to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of its subsidiaries and/or affiliates, including eCOST. The Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb.

eCOST currently has an asset-based line of credit facility of up to $7.5 million with Wachovia, which is collateralized by substantially all of eCOST's assets and expires in May 2011. Borrowings under the facility are limited to a percentage of eligible accounts receivable and letter of credit availability is limited to a percentage of accounts receivable and inventory. As of March 31, 2010, eCOST had $1.0 million of letters of credit outstanding and $1.3 million of available credit under this facility. The credit facility restricts eCOST's ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as a minimum tangible net worth of $0 million, as defined. PFSweb has guaranteed all current and future obligations of eCOST under this line of credit.

We financed certain capital expenditures through a Loan Agreement with the Mississippi Business Finance Corporation (the "MBFC") pursuant to which the MBFC issued MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the "Bonds"). The MBFC loaned PFS the proceeds of the Bonds for the purpose of financing the acquisition and installation of equipment, machinery and related assets to support incremental business from a Southaven, Mississippi distribution facility. The primary source of repayment of the Bonds is a letter of credit (the "Letter of Credit") issued by Comerica pursuant to a Reimbursement Agreement between us and Comerica under which PFS is obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has a maturity date of April 2011 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof. The amount outstanding on this Loan Agreement as of March 31, 2010 was $1.6 million. PFS' obligations under the Reimbursement Agreement are secured by substantially all of its assets, including restricted cash of $0.7 million and a Company parent guarantee.

eCOST has historically incurred significant operating losses and used cash to fund its operations. As a result, we have been required to invest cash to fund eCOST's operations, which we may not be able to continue to do without approval from our lenders. The amount of further cash needed to support eCOST operations depends upon the financing available under its credit line as well as eCOST's ability to improve its financial results. Through March 31, 2010, we have advanced $16.0 million to eCOST to fund eCOST's cash flow requirements and have lender approval to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of our subsidiaries and/or affiliates, including eCOST. In the event we need to invest further cash to eCOST, we may be required to seek approval from our lenders to provide such funds. We can provide no assurance that we will receive such approval from our lenders or any terms or conditions required by our lenders in order to obtain such approval. In addition, PFSweb has provided a guaranty of eCOST's bank line of credit and certain eCOST vendor trade payables.

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. In December 2006, we received notice that the municipal authority planned to make an adjustment to our tax abatement. We have disputed the adjustment as of March 31, 2010, but if the dispute is not resolved favorably, additional property taxes of approximately $1.7 million could be assessed against us.

Pursuant to the terms of certain contractual agreements with certain of eCOST's vendors, the vendor has the right to inspect and audit eCOST's books and records relating to sales of such vendor's products to verify eCOST's compliance with any terms and conditions imposed by such vendor upon the resale of such products. Under certain circumstances, eCOST may be subject to certain contractual defined liabilities and obligations in the event the results of such audit determine noncompliance by eCOST with such terms and conditions. In April 2010, an audit was conducted by an eCOST vendor to determine compliance by eCOST with such vendor's terms and conditions. As of the date of this Report, eCOST has not received the results of such audit or any further information from such vendor. No assurance can be given that the results of such audit, or any claim asserted by the vendor in connection therewith, will not have a material adverse effect upon the Company's financial condition or results of operations.

In April 2010, a sales employee of eCOST was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately $620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. Shortly thereafter, the Company received a subpoena from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and the Company provided such information and is fully cooperating with the Office of the U.S. Attorney. The Company has commenced its own investigation into the actions of the employee. Neither the Company nor eCOST has been charged with any criminal activity, and eCOST intends to seek the recovery or reimbursement of the funds. Based on the information available to date, eCOST is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of eCOST to recover such funds or any significant portion thereof, will not have a material adverse effect upon the Company's financial condition or results of operations.

Seasonality

The seasonality of our service fee 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 with our current client mix and their current business volumes, our run rate service fee business activity will be at its lowest in the quarter ended March 31. We anticipate our Supplies Distributors' product revenue will be highest during the quarter ended December 31. Our eCOST business is moderately seasonal, reflecting the general pattern of peak sales for the retail industry during the holiday shopping season. Typically, a larger portion of our eCOST revenues occur during the fourth fiscal quarter. We believe our historical revenue growth makes it difficult to predict the effect of seasonality on our future revenues and results of operations.

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 our critical accounting policies, including goodwill and long-lived assets, is included in Note 2 of the consolidated financial statements in our December 31, 2009 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not required.

ITEM 4. Controls and Procedures

Disclosure 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. 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.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15-d-15(f) of the Exchange Act) during the three months ended March 31, 2010 that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In April 2010, a sales employee of eCOST was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately $620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. Shortly thereafter, the Company received a subpoena from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and the Company provided such information and is fully cooperating with the Office of the U.S. Attorney. The Company has commenced its own investigation into the actions of the employee. Neither the Company nor eCOST has been charged with any criminal activity, and eCOST intends to seek the recovery or reimbursement of the funds. Based on the information available to date, eCOST is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of eCOST to recover such funds or any significant portion thereof, will not have a material adverse effect upon the Company’s financial condition or results of operations.

ITEM 1A. Risk Factors

In addition to the risk factors set forth in Part I, Item 1A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 filed with the Securities and Exchange Commission on March 31, 2010, our business, financial condition and operating results could be adversely affected by any or all of the following factors.

Risks Related to All Our Business Segments

Our business and future growth depend on our continued access to bank and commercial financing. The current economic crisis may negatively impact our business, results of operations, financial condition or liquidity.

During the past two years, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States and foreign governments. An uncertain or recessed economy could also adversely impact our customers’ operations or ability to maintain liquidity which may negatively impact our business and results of operations.

Our business and future growth currently depend on our ability to access bank and commercial lines of credit. We currently depend on an aggregate of approximately $108 million in line of credit facilities provided by various banks and commercial lenders. These lines of credit currently mature at various dates through May 2011 and are secured by substantially all our assets. Our ability to renew our lines of credit facilities depends upon various factors, including the availability of bank loans and commercial credit in general, as well as our financial condition and prospects. Therefore, we cannot guarantee that these credit facilities will continue to be available beyond their current maturities on reasonable terms or at all. Our inability to renew or replace our credit facilities or find alternative financing would materially adversely affect our business, financial condition, operating results and cash flow.

We operate with significant levels of indebtedness and are required to comply with certain financial and non-financial covenants; we are required to maintain a minimum level of subordinated loans to our subsidiary Supplies Distributors; and we have guaranteed certain indebtedness and obligations of our subsidiaries Supplies Distributors and eCOST.

As of March 31, 2010, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of IPS product inventory, was approximately $50.7 million. Certain of the credit facilities have maturity dates in calendar year 2011, but are classified as current liabilities in our consolidated financial statements. We cannot provide assurance that our credit facilities will be renewed by the lending parties. Additionally, these credit facilities include both financial and non-financial covenants, many of which also include cross default provisions applicable to other agreements. These covenants also restrict our ability to transfer funds among our various subsidiaries, which may adversely affect the ability of our subsidiaries to operate their businesses or comply with their respective loan covenants. We cannot provide assurance that we will be able to maintain compliance with these covenants. Any non-renewal or any default under any of our credit facilities would have a material adverse impact upon our business and financial condition. In addition we have provided $5.0 million of subordinated indebtedness to Supplies Distributors as of March 31, 2010. The maximum level of this subordinated indebtedness to Supplies Distributors that may be provided without approval from our lenders is $5.5 million. The restrictions on increasing this amount without lender approval may limit our ability to comply with certain loan covenants or further grow and develop Supplies Distributors' business. We have guaranteed most of the indebtedness of Supplies Distributors. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors by its lenders to the extent Supplies Distributors is unable to do so. We have also guaranteed eCOST's $7.5 million credit line, as well as certain of its vendor trade payables. We currently expect that it may be necessary to provide additional guarantees of certain eCOST vendor trade payables in the future.

Risks Related to Our PFS and Supplies Distributors Operating Segments

Our business is subject to the risk of customer and supplier concentration.

For the three months ended March 31, 2010 and 2009, a technology company, a consumer products company and a U.S. government agency represented the source of approximately 14%, 14% and 0%, respectively, and approximately 13%, 9% and 22%, respectively, of our total service fee revenue, excluding pass-through revenue. Our activity under our contract with the U.S. government agency concluded in the second quarter of 2009. PFS currently operates three distinct geographical contract arrangements with the technology company which are aggregated in the service fee revenue percentages above. The technology company has notified PFS that it is not renewing substantially all of its contracts with PFS which expire in 2010. The non-renewal of these contracts has had, and may continue to have, a material adverse effect upon our business.

A substantial portion of our Supplies Distributors product revenue is generated by sales of product purchased under master distributor agreements with IPS. These agreements are terminable at will and no assurance can be given that IPS will continue the master distributor agreements with Supplies Distributors. Supplies Distributors does not have its own sales force and relies upon IPS' sales force and product demand generation activities for its sale of IPS product. Discontinuance of such activities would have a material adverse effect on Supplies Distributors' business and our overall financial condition.

Sales by Supplies Distributors to three customers accounted for, in the aggregate, approximately 40% and 39% of Supplies Distributors' total product revenue for the three months ended March 31, 2010 and 2009, respectively (21% and 20% of our consolidated net revenues in each three month period, respectively). The loss of any one or all of such customers, or non-payment of any material amount by these or any other customer, are likely to have a material adverse effect upon Supplies Distributors' business.

We subcontract a portion of our client services to third parties, and we are subject to various risks and liabilities if such subcontractors do not provide the subcontracted services or provide them in a manner which does not meet required service levels.

We currently, and may in the future, subcontract to one or more third parties a portion of our end-to-end solution service offering. Although our end-to-end solution service clients generally approve in advance the designation of the subcontractor and its provision of the subcontracted services, under the terms of our contracts with our end-to-end solution service clients, we remain liable to provide such subcontracted services and may be liable for the actions and omissions of such subcontractors. In certain instances, our end-to-end solution service clients prepay in advance a portion of the service fees payable in respect of the subcontracted services, and, under certain circumstances, including our breach or the breach by our subcontractor of our or their respective obligations, we are liable to refund all or a portion of such prepaid fees. Consequently, in the event our subcontractor fails to provide the subcontracted services in compliance with required services levels, or otherwise breaches its obligations, or discontinues its business, whether as the result of bankruptcy, insolvency or otherwise, we may be required to provide such services at a higher cost to us and may otherwise be liable for various costs and expenses related to such event. In addition, any such failure may damage our reputation and otherwise result in a material adverse affect upon our business and financial condition.

Risks Related to eCOST, our Online Discount Retailer Segment

Our business is subject to the risk of supplier concentration.

Our business is dependent on sales of Hewlett Packard (HP) and HP-related products, which represented approximately 58% of eCOST's net revenues (13% of our consolidated net revenues) in the three months ended March 31, 2010 and 42% of eCOST's net revenues (10% of our consolidated net revenues) in the comparable period of 2009. If our ability to purchase direct from HP is terminated or restricted, or if the demand for HP and HP-related products declines, our business will be materially adversely affected.

Our business is subject to various contingencies, including a vendor audit and an investigation related to possible criminal activities by a sales employee which may have a material adverse effect upon our financial condition and results of operations.

Pursuant to the terms of certain contractual agreements with certain of eCOST's vendors, the vendor has the right to inspect and audit eCOST's books and records relating to sales of such vendor's products to verify eCOST's compliance with any terms and conditions imposed by such vendor upon the resale of such products. Under certain circumstances, eCOST may be subject to certain contractual defined liabilities and obligations in the event the results of such audit determine noncompliance by eCOST with such terms and conditions. In April 2010, an audit was conducted by an eCOST vendor to determine compliance by eCOST with such vendor's terms and conditions. To date, eCOST has not received the results of such audit or any further information from such vendor. No assurance can be given that the results of such audit, or any claim asserted by the vendor in connection therewith, will not have a material adverse effect upon the Company's financial condition or results of operations.

In April 2010, a sales employee of eCOST was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately $620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. Shortly thereafter, the Company received a subpoena from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and the Company provided such information and is fully cooperating with the Office of the U.S. Attorney. The Company has commenced its own investigation into the actions of the employee. Neither the Company nor eCOST has been charged with any criminal activity, and eCOST intends to seek the recovery or reimbursement of the funds. Based on the information available to date, eCOST is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of eCOST to recover such funds or any significant portion thereof, will not have a material adverse effect upon the Company's financial condition or results of operations.

Risks Related to Our Stock

Our stock price could decline if a significant number of shares become available for sale.

As of March 31, 2010, we have an aggregate of 1.8 million stock options outstanding to employees, directors and others with a weighted average exercise price of $4.74 per share. The shares of common stock that may be issued upon exercise of these options may be resold into the public market. Sales of substantial amounts of common stock in the public market as a result of the exercise of these options, or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

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ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1(1)	Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.1(2)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.2(4)	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3(5)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2(1)	Amended and Restated By-Laws
3.2.1(3)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
10.1*	Eighth Amended and Restated Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., Supplies Distributors, Inc. and IBM Credit Corporation.
10.2*	Amendment 11 to Agreement for Inventory Financing.
10.3*	Amendment 10 to Amended and Restated Platinum Plan Agreement.
10.4*	Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.
10.5*	Eighth Amendment to First Amended and Restated Loan and Security Agreement by and between Comerica Bank and Priority Fulfillment Services, Inc.
10.6*	2010 Management Bonus Plan
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

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

(2) Incorporated by reference from PFSweb, Inc. Form 10-K for the fiscal year ended December, 31, 2005 filed on March 31, 2006.

(3) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on November 13, 2007.

(4) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 2, 2008.

(5) Incorporated by reference from PFSweb, Inc. Form 10-Q filed on August 14, 2009.

* Filed Herewith

SIGNATURE

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 17, 2010

PFSweb, Inc.

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

IBM Credit LLC

EIGHTH AMENDED AND RESTATED
NOTES PAYABLE SUBORDINATION AGREEMENT

IBM CREDIT LLC
North Castle Drive
Armonk, NY 10504

Ladies and/or Gentlemen:

This Eighth Amended and Restated Notes Payable Subordination Agreement amends and restates in its entirety the Seventh Amended and Restated Notes Payable Subordination Agreement dated March 27, 2009 executed by Priority Fulfillment Services, Inc., ("PFS"). Supplies Distributors, Inc., with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("SDI"), is/may become further indebted to PFS. PFS represents that no part of said indebtedness has been assigned to or subordinated in favor of any other person, firm or corporation, other than pursuant to the Notes Payable Subordination Agreement, dated as of March 29, 2002 by and between PFS and Wachovia Bank, National Association (formerly known as Congress Financial Corporation (Southwest)) ("Wachovia") ("Notes Payable Subordination Agreement") and that PFS does not hold any security therefor. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Financing Agreement referred to below.

To induce IBM Credit LLC ("IBM Credit") to continue financing SDI under the terms of the Agreement for Inventory Financing dated March 29, 2002 with SDI (as amended, modified, and supplemented from time to time, the "Financing Agreement") and in consideration of any loans, advances, payments, extensions or credit (including the extension or renewal, in whole or in part, of any antecedent or other debt), benefits or financial accommodations heretofore or hereafter made, granted or extended by IBM Credit or which IBM Credit has or will become obligated to make, grant or extend to or for the account of SDI whether under the Financing Agreement or otherwise, and in consideration of any obligations heretofore or hereafter incurred by SDI to IBM Credit, whether under the Financing Agreement or otherwise, PFS agrees to make the payment of the indebtedness referred to in the first paragraph hereof and any and all other present or future indebtedness of SDI to PFS together with any and all interest accrued thereon (collectively the "Secondary Obligations") subject and subordinate to the prior indefeasible payment in full of any and all debts, obligations and liabilities of SDI to IBM Credit, whether absolute or contingent, due or to become due, now existing or hereafter arising and whether direct or acquired by IBM Credit by transfer, assignment or otherwise (collectively the "Primary Obligations") and that SDI shall make no payments to PFS until the Primary Obligations have been indefeasibly paid in full as acknowledged in writing by IBM Credit. Notwithstanding the foregoing, SDI may make payments in respect of the Secondary Obligations provided that (i) no Default or Event of Default exists immediately prior to the payment of the Secondary Obligations and that no Default or Event of Default will occur after any payment in respect of the Secondary Obligations and, (ii) any such payment shall not cause the total amount of the Secondary Obligations to be less than Three Million Five Hundred Thousand Dollars ($3,500,000.00), and (iii) such payment would be permitted under the Notes Payable Subordination Agreement. Except as provided above, PFS agrees not to ask, demand, sue for, take or receive payment or security for all or any part of the Secondary Obligations until and unless all of the Primary Obligations shall have been fully paid and discharged.

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

While this instrument remains in effect, PFS will not assign to or subordinate in favor of any other person, firm or corporation, (except for Wachovia subject to terms of the Intercreditor Agreement dated the date thereof between Wachovia and IBM Credit) any right, claim or interest in or to the Secondary Obligations or commence or join with any other creditor in commencing any bankruptcy, reorganization or insolvency proceeding against SDI. IBM Credit may at any time, in its discretion, renew or extend the time of payment of all or any portion of the Primary Obligations or waive or release any collateral which may be held therefor and IBM Credit may enter into such agreements with SDI as IBM Credit may deem desirable without notice to or further assent from PFS and without adversely affecting IBM Credit's rights hereunder in any manner whatsoever.

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

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

Dated: March ___, 2010.

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________

Name: Thomas J. Madden
Title: CFO
500 North Central Expressway
Plano, TX 75074

To: IBM Credit LLC

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

SUPPLIES DISTRIBUTORS, INC.

By: ______________________________

Name: Joseph Farrell
Title: President / CEO

ACCEPTED:

IBM CREDIT LLC

By: ______________________________

Name: Stanton Clark
Title: Manager, Credit

ACKNOWLEDGMENT OF SUBORDINATION

______________________________)
)SS
______________________________)

On the ______ day of March, 2010, appeared before me ____________ to me known to be the individual described in and who executed the foregoing instrument, and who acknowledged to me that the same was executed as his or her free and voluntary act for the uses and purposes therein set forth.

____
(Notary Public)

My Commission Expires:

____________, ______

AMENDMENT NO. 11
TO
AGREEMENT FOR INVENTORY FINANCING

This Amendment No. 11 ("Amendment") to the Agreement for Inventory Financing is made as of March ___, 2010 by and among **IBM Credit LLC**, a Delaware limited liability company ("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 "Amended and Restated Notes Payable Subordination Agreement" to read in its entirety as follows:

"Amended and Restated Notes Payable Subordination Agreement": the Eighth Amended and Restated Notes Payable Subordination Agreement dated March ___, 2010 executed by PFS in favor of IBM Credit."

B. 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 April 1, 2011 or such other date as IBM Credit and the Borrower may agree to from time to time in writing."

C. Section 8.6 of the Agreement is hereby amended by amending this Section to read in its entirety as follows:

“**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 of administration thereof make payments on the revolving loans made by Wachovia Bank, National Association (formerly known as Congress Financial Corporation (Southwest)) (“Wachovia”) pursuant to the Congress Credit Agreement, as permitted by the Amended and Restated Notes Payable Subordination Agreement; (b) may in calendar year 2010 pay cash dividends not to exceed one hundred percent of Borrower’s calendar year 2009 net income according to GAAP, plus all cash dividends received from its subsidiaries; and (c) may permit Supplies Distributors of Canada, Inc. to make a one-time payment in an amount not to exceed Four Hundred Thousand Dollars ($400,000.00) in 2010. Holdings is also permitted to pay cash dividends in calendar year 2010 equal to all cash dividends it receives in calendar year 2010 from its subsidiaries provided such distributions do not cause an event of default.

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

“(B) 1. Borrower will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis* (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital * Annualized Revenue from intercompany sales are excluded from this calculation.	Greater than Zero and Equal to or Less than 37.0:1.0
(ii)	Net Profit after Tax to Revenue** **Excluding all income and losses applicable to (a) 100% ownership in Canadian and European subsidiaries and (b) foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and excluding revenue from intercompany sales.	Equal to or Greater than 0.20 percent
(iii)	Total Liabilities to Tangible Net Worth***	Greater than Zero and Equal to or Less than 7.0:1.0

Covenant	Covenant Requirement
***Accumulated earnings and unrealized foreign currency translation adjustments applicable to Borrower's Canadian and European subsidiaries are excluded from calculation of Borrower's Total Assets and Total Net Worth.	

2. Business Supplies Distributors Holdings, LLC will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 37.0:1.0
(ii)	Net Profit after Tax to Revenue* *Excluding all (a) income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and (b) revenue from intercompany sales.	Equal to or Greater than 0.15 percent
(iii)	Total Liabilities to Tangible Net Worth	Greater than Zero and Equal to or Less than 7.0:1.0

3. 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, annually) by IBM Credit:

Covenant	Covenant Requirement	As of Date
Minimum Tangible Net Worth	$18,000,000.00	03/31/03 and thereafter"

Section 3. Conditions of Effectiveness of Amendment. This Amendment shall become effective upon the receipt by IBM Credit of: (i) this Amendment which shall have been authorized, executed and delivered by each of the parties hereto and IBM Credit shall have received a copy of a fully executed Amendment, and (ii) the Eighth Amended and Restated Notes Payable Subordination Agreement executed by PFS, and (iii) a subordinated demand note issued in favor of IBM Credit and Wachovia, in form and substance satisfactory to IBM Credit, in the amount of Three Million and Five Hundred Thousand Dollars ($3,500,000.00) and (iv) in the event that products currently supplied by IBM Printing Systems Division ("Infoprint Products ") cease to be sold to Loan Parties by an entity that is wholly owned by IBM, on the date of such cessation any Infoprint Products then forming part of the Collateral shall continue to be Collateral and any Infoprint Products supplied by any other legal entity thereafter shall only form part of the Collateral from the date on which IBM Credit has established arrangements and entered into agreements acceptable to IBM Credit with such supplier and Loan Parties for the continued financing of Infoprint Products.

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 Parties 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

By: ______________________________
Print Name: ______________________
Title: ___________________________

Supplies Distributors, Inc.

By: ______________________________
Print Name: ______________________
Title: ___________________________

Business Supplies Distributors Holdings, LLC

By: __________ as Managing Member

By: ______________________________
Print Name: ______________________
Title: ___________________________

Priority Fulfillment Services, Inc.

By: ______________________________
Print Name: ______________________
Title: ___________________________

PFSweb, Inc.

By: ______________________________
Print Name: ______________________
Title: ___________________________

Attachment A ("Attachment A") TO
AGREEMENT FOR INVENTORY FINANCING
DATED MARCH 29, 2002

EFFECTIVE DATE OF THIS ATTACHMENT A: March __, 2010

SECTION I. BORROWER/LOAN PARTIES:

(A)	**<u>BORROWER:</u>**	**<u>ORGANIZATION NO. (Assigned by State of Org).</u>**
	Supplies Distributors, Inc.	3416326
(B)	**ADDITIONAL LOAN PARTIES:**	
	Business Supplies Distributors Holdings, LLC	3410894
	Priority Fulfillment Services, Inc.	2606094
	PFSweb, Inc.	3062550

SECTION II. FEES, RATES AND REPAYMENT TERMS:

(A) Credit Line: Thirty Million Five Hundred Thousand Dollars ($30,500,000)

In the event that the amount of any Participation is reduced or any Participation Agreement expires or is terminated for any reason, the Credit Line shall be reduced, upon forty-five (45) days written notice by IBM Credit to Borrower, by an amount equal to the amount that is no longer subject to a Participation Agreement as determined by IBM Credit pursuant to Section 2.1 of the Agreement.

(B) Borrowing Base:
(i) 100% of the Borrower's inventory in the Borrower's possession as of the date of determination as reflected in the Borrower's most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, so long as (1) IBM Credit has a first priority security interest in such Products and (2) such Products are in new and un-opened boxes;

(ii) 80% of price protection payments, credits, discounts, incentive payments, rebated and refunds relating to IBM Products ("Accounts") in the aggregate not to exceed Two Million Five Hundred Thousand Dollars ($2,500,000.00) provided that (i) Borrower obtains (and provides to IBM Credit along with the monthly Collateral Management Report required under Section 7.1 (O)) from IBM written confirmation (a) acknowledging the obligation of IBM to pay such amount or that they have received the billing from the Borrower, (b) stating the date the amount is due to be paid and (c) IBM waiving its right to setoff such amounts owed to Borrower with any amount Borrower may owe to IBM, (ii) such Accounts do not remain unpaid for more than sixty (60) days from the date the obligation of IBM occurred; and (iii) such Accounts are delivered directly to IBM Credit.

(C) Product Financing Charge: Prime Rate plus 0.50%
(D) Product Financing Period: 90 days
(E) Collateral Insurance Amount: Thirty Million Five Hundred Thousand Dollars ($30,500,000.00)
(F) PRO Finance Charge: Prime Rate plus 0.50%
(G) Delinquency Fee Rate: Prime Rate plus 6.500%

(I) Free Financing Period Exclusion Fee: Product Advance multiplied by 0.25%

(J) Other Charges:

(i) Monthly Service Fee: $1,000.00

(ii) Annual Renewal Fee: $15,000.00

SECTION III. FINANCIAL COVENANTS:

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

"Consolidated Net Income" shall mean, for any period, the net income (or loss), after taxes, of Borrower 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, restricted cash applicable to cash received into a lockbox from collections of trade accounts receivable 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 Credit and Congress shall be considered a Current Liability for purposes of determining compliance with the Financial Covenants. All subordinated indebtedness shall not be considered current liabilities.

"EBITDA" shall mean, for any period (determined on a consolidated basis in accordance with GAAP), (a) the Consolidated Net Income of Borrower for such period, plus (b) each of the following to the extent reflected as an expense in the determination of such Consolidated Net Income: (i) the Borrower's provisions for taxes based on income for such period; (ii) Interest Expense for such period; and (iii) depreciation and amortization of tangible and intangible assets of Borrower for such period.

"Fixed Charges" shall mean, for any period, an amount equal to the sum, without duplication, of the amounts for such as determined for the Borrower on a consolidated basis, of (i) scheduled repayments of principal of all Indebtedness (as reduced by repayments thereon previously made), (ii) Interest Expense, (iii) capital expenditures (iv) dividends, (v) leasehold improvement expenditures and (vi) all provisions for U.S. and non U.S. Federal, state and local taxes.

"Fixed Charge Coverage Ratio" shall mean the ratio as of the last day of any fiscal period of (i) EBITDA as of the last day of such fiscal period to (ii) Fixed Charges.

"Interest Expense" shall mean, for any period, the aggregate consolidated interest expense of Borrower during such period in respect of Indebtedness determined on a consolidated basis in accordance with GAAP, including, without limitation, amortization of original issue discount on any Indebtedness and of all fees payable in connection with the incurrence of such Indebtedness (to the extent included in interest expense), the interest portion of any deferred payment obligation and the interest component of any capital lease obligations.

"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, including applicable taxes.

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

“Subordinated Debt” shall mean Borrower’s indebtedness to third parties as evidenced by an executed Notes Payable Subordination Agreement in favor of IBM Credit.

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

“Total Assets” shall mean the total of Current Assets and Long Term Assets. For the purpose of calculating Total Assets for Borrower, the accumulated earnings and foreign currency translation adjustments applicable to Borrower’s Canadian and European subsidiaries are excluded.

“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. For the purpose of calculating Total Net Worth of Borrower, following shall be excluded (i) accumulated earnings and unrealized foreign currency translation adjustments applicable to Borrower’s Canadian and European subsidiaries and (ii) all income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP.

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

(B) 1. Borrower will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis* (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital * Annualized Revenue from intercompany sales are excluded from this calculation.	Greater than Zero and Equal to or Less than 37.0:1.0
(ii)	Net Profit after Tax to Revenue** **Excluding all income and losses applicable to (a) 100% ownership in Canadian and European subsidiaries and (b) foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and excluding revenue from intercompany sales.	Equal to or Greater than 0.20 percent

	Covenant	Covenant Requirement
(iii)	Total Liabilities to Tangible Net Worth*** ***Accumulated earnings and unrealized foreign currency translation adjustments applicable to Borrower's Canadian and European subsidiaries are excluded from calculation of Borrower's Total Assets and Total Net Worth.	Greater than Zero and Equal to or Less than 7.0:1.0

2. Business Supplies Distributors Holdings, LLC will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 37.0:1.0
(ii)	Net Profit after Tax to Revenue* *Excluding all (a) income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and (b) revenue from intercompany sales.	Equal to or Greater than 0.15 percent
(iii)	Total Liabilities to Tangible Net Worth	Greater than Zero and Equal to or Less than 7.0:1.0

3. 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, annually) by IBM Credit:

Covenant	Covenant Requirement	As of Date
Minimum Tangible Net Worth	$18,000,000.00	03/31/03 and thereafter

AMENDMENT 10
TO
AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)

This Amendment 10 ("Amendment") dated March 25, 2010 is made to the **AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)** by and among **IBM BELGIUM FINANCIAL SERVICES B.V.B.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" or "you"),** and **PFS Web B.V**. **SPRL** a company registered in The Netherlands, having the statutory seat in Amsterdam under the number 17109541, and having the administration and direction seat in Grace Hollogne, with a Belgian trade registration number of R.C. Liege 204162, VAT BE 466681054 **("PFS Web B.V. ")** (SDSA 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 April 1, 2011 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 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 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 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) SDSA may pay cash dividends in an amount not to exceed 100% of its prior year earnings, to Supplies Distributors, Inc. in calendar year 2010.”

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: €16,000,000

VAT Receivables: Included in Collateral Valuation

Prepayment Percentage: (i) 80% of Eligible Infoprint or IBM Reimbursables no older than 90 days, (ii) 80% of Eligible Infoprint or IBM Receivables and (iii) 80% of Eligible VAT Receivables.

Collateral Value of Stock-in-Trade: (A) 100% of paid for IBM Printing Systems Division or InfoPrint Solution Company inventory other than (a) machines which IBM Printing Systems Division or Infoprint Solution Company 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 or InfoPrint Solution Company 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 COVENANTS

SDSA 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 37.0:1.0

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	03/31/10 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 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 BVBA/ SPRL.

By: ____________________
Print Name: ____________________
Title: ____________________

SUPPLIERS DISTRIBUTORS S.A.

By: ____________________
Print Name: ____________________
Title: ____________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: ____________________
Print Name: ____________________
Title: ____________________

PFS WEB B.V. SPRL

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: ___________________________

Agreement for IBM Global Financing Platinum Plan

Invoice Discounting Schedule

Supplies Distributors S.A.

Your Name	Supplies Distributors S.A.	**Schedule Number**	10
Your Number	SDSA — RC Liege 208795	**Effective date of Schedule**	25 March 2010
Credit Limit	€16,000,000	**Commencement Date**	27 September 2001
No Charge Period	IBM 45 days	**Prepayment Percentage**	(i) 80% of Eligible IBM and InfoPrint Solution Company Reimbursables no older than 90 days (ii) 80% of Eligible IBM and InfoPrint Solution Company Receivables (iii) 80% of Eligible VAT Receivables

Collateral Value of Stock-in-Trade

100% of paid for IBM Printing Sytems Division or InfoPrint Solution Company inventory (other than (a) machines which IBM Printing Systems Division or InfoPrint Solution Company 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 or InfoPrint Solution Company 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.

FINANCE CHARGES (2)

Base Rate (3)	EURIBOR
Discount Charge (5)	Base Rate plus 1.82%
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 4.13%

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	Once a year
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
VAT Receivables report with supporting documentation (including breakdown of calculations of VAT due and deductible)	20 days after calendar month

ADDITIONAL COLLATERAL

This Agreement	
Stock Pledge Agreement among Supplies Distributors, Inc ("SDI"), and IBM GF, whereby SDI pledges 65% of its shares in SDSA to IBM GF	Amended and Restated Stock Pledge
Liens: Charges: Pledges: Fixed and Floating Charge over all IBM inventory of SDSA 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) SDSA and PFS Web B.V. are duly organized under the laws of the Kingdom of Belgium and registered to do business there (ii) 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, (iii) 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 (iv) 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 • The goods in transit can not contain of items older than 20 working days as net collateral value in the CMR.

OTHER CONDITIONS

1. Valid and enforceable customary documentation for the Collateral provided by 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.

FINANCIAL COVENANTS

SDSA 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 37.0:1.0

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 03/31/10 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 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 BVBA/SPRL.
Avenue du Bourget 42
B-1130 Brussels
Belgium
VAT BE 424300467

(ii) if to SDSA:

Supplies Distributors S.A.
Rue Louis Blériot 5
B-4460 Grâce-Hollogne
Belgium

(iii) if to PFS Web B.V.

PFS Web B.V. SPRL
c/o SDSA

Footnotes:

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

(2) "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.

(3) 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

SUPPLIES DISTRIBUTORS S.A.

TVA BE 475.286.142

Signed: ______________________

By Name: ______________________

Title: ______________________

Signature: ______________________

Date: ______________________

Signed on behalf of

IBM BELGIUM FINANCIAL SERVICES BVBA/SPRL

TVA BE 424.300.467

Signed: ______________________

By Name: ______________________

Title: ______________________

Signature: ______________________

Date: ______________________

PFS WEB B. V. SPRL

Signed: ______________________

By Name: ______________________

Title: ______________________

Signature: ______________________

Date: ______________________

EIGHTH AMENDMENT TO FIRST AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS EIGHTH AMENDMENT TO FIRST AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (herein called this "Amendment") made as of the 25th day of March, 2010 by and between Priority Fulfillment Services, Inc. ("Borrower") and Comerica Bank ("Bank"),

WITNESSETH:

WHEREAS, Borrower and Bank have entered into that certain First Amended and Restated Loan and Security Agreement dated as of December 29, 2004 (as from time to time amended or modified, the "Original Agreement") for the purposes and consideration therein expressed, pursuant to which Bank became obligated to make loans to Borrower as therein provided; and

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

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

ARTICLE I.

Definitions and References

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

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

"Amendment" means this Eighth Amendment to First Amended and Restated Loan and Security Agreement.

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

ARTICLE II.

Amendment to Original Agreement

§ 2.1 Defined Terms.

(a) The definition of “Permitted Distribution” in Exhibit A to the Original Agreement is hereby amended in its entirety to read as set forth below:

“Permitted Distribution” means any cash dividend or cash distribution by Borrower to any entity that is an Affiliate of Borrower, provided that such cash dividend or cash distribution is made from Inflow Transfer received by Borrower after March 31, 2010, in excess of $4,150,000.

(b) Clauses (e) and (f) of the definition of “Permitted Investment” in Exhibit A to the Original Agreement are hereby amended in their entirety to read as follows:

(e) Advances by Borrower to Supplies Distributor, Inc. pursuant to the Subordinated Demand Note, so long as (1) the aggregate outstanding principal amount of such Indebtedness does not exceed $5,500,000 (excluding accrued and unpaid interest) at any time, and (2) before and after giving effect to such advances no Event of Default has occurred and is continuing;

(f) Incremental cash Investments by Borrower in or cash advances to SPRL PFSweb B.V., Priority Fulfillment Services of Canada, Inc., eCOST Philippine Services LLC, PFSM, LLC and eCOST.com, not to exceed $250,000, provided that (1) the aggregate amount of all Inflow Transfers after January 1, 2010 and prior to April 30, 2010 equals or exceeds $500,000, and (2) at the time of each such incremental cash Investment and after giving effect thereto, no Event of Default has occurred and is continuing.

(c) The definition of “Revolving Maturity Date” in Exhibit A to the Original Agreement is hereby amended in its entirety to read as follows:

“Revolving Maturity Date” means March 30, 2011.

(d) The definition of “Tangible Net Worth” in Exhibit A to the Original Agreement is hereby amended in its entirety to read as follows:

“Tangible Net Worth” means, with respect to any Person, at any date as of which the amount thereof shall be determined: (a) the total assets of such Person and its properly consolidated Subsidiaries minus the total liabilities of such Person and its properly consolidated Subsidiaries, minus (b) goodwill.

§ 2.2 Fees. Section 2.5(a) of the Original Agreement is hereby amended in its entirety to read as follows:

(a) Facility Fee. A facility fee in the aggregate amount of $50,000 to be paid on March 25, 2010.

§ 2.3 Financial Statements, Reports, Certificates.

(a) The due date for the financial statements due for the calendar month of January 2010 under Section 6.2(a) of the Original Agreement is hereby extended to March 31, 2010.

(b) Section 6.2(j) of the Original Agreement is hereby amended to read as follows:

(j) within 30 days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer, together with aged listings by invoice date of accounts receivable and accounts payable;

(c) The due date for the Compliance Certificate due for the calendar month of January 2010 under Section 6.2(k) of the Original Agreement is hereby extended to March 31, 2010.

§ 2.4 EBITDA. Section 6.7(d) of the Original Agreement is hereby amended in its entirety to read as follows:

(d) EBITDA. As of the last day of each calendar month, the variance, if negative, then expressed as a positive number, between Borrower's EBITDA and the EBITDA set forth in the Approved Projections for the twelve (12) calendar month period ending on such date, shall not exceed $350,000. As used herein, "EBITDA" shall mean, for any period of calculation, Borrower's earnings for such period before interest and taxes plus depreciation, amortization and non-cash stock compensation accruals to the extent deducted in the calculation of such earnings. "Approved Projections" means for the 2010 calendar year, the projections for such period that have been reviewed by Borrower's Board of Directors and delivered to Bank on or about March 22, 2010.

§ 2.5 Affirmative Covenants. Section 6.12 of the Original Agreement is hereby amended in its entirety to read as follows:

6.12 Inflow Transfers. Borrower shall receive not less than $4,900,000 in aggregate Inflow Transfers during the period beginning March 31, 2010 and ending on July 5, 2010.

§ 2.6 Negative Covenants. Section 7.12 of the Original Agreement is hereby amended in its entirety to read as follows:

7.12 Capital Expenditures. Make capital expenditures in an aggregate amount greater than $4,000,000 in each fiscal year of Borrower, provided that the aggregate amount of such expenditures purchased with cash (and not financed) shall not exceed $600,000; provided further, that any capital expenditures made by Borrower exclusively from the proceeds of Permitted Distributions shall not be subject to the foregoing limitations. As used herein, the term “capital expenditures” does not include (i) any software that is internally developed by Borrower, whether or not Borrower capitalized the development costs, and (ii) any equipment ordered, but not yet accepted or paid for, by Borrower.

ARTICLE III.

Conditions of Effectiveness

§ 3.1 Effective Date. This Amendment shall become effective as of the date first above written when and only when Bank shall have received, at Bank’s office, (a) a counterpart of this Amendment executed and delivered by Borrower and the attached Consent and Agreement executed and delivered by Guarantor, (b) the facility fee required pursuant to Section 2.5(a) of the Agreement, and (c) an officer’s certificate of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Amendment and the other Loan Documents.

ARTICLE IV.

Representations and Warranties

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

(a) The representations and warranties contained in Article 5 of the Original Agreement are true and correct at and as of the time of the effectiveness hereof, except to the extent such representations or warranties relate to an earlier date in which case such representation or warranty shall be true and correct as of such earlier date and except as otherwise set forth in a written schedule delivered to the Bank concurrently herewith.

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

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

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

ARTICLE V.

Miscellaneous

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

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

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

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

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

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

[*Remainder of this page intentionally left blank*]

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

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________

Name:

Title:

COMERICA BANK

By: ______________________________

Name:

Title:

CONSENT AND AGREEMENT

PFSWEB, INC., a Delaware corporation, hereby consents to the provisions of this Amendment and the transactions contemplated herein, and hereby ratifies and confirms the Guaranty dated as of December 29, 2004, made by it for the benefit of Bank, and agrees that its obligations and covenants thereunder are unimpaired hereby and shall remain in full force and effect.

PFSWEB, INC.

By: ______________________________

Name:

Title:

Exhibit 10.6

PFSweb, Inc. 2010 Management Bonus Plan

WHEREAS, PFSweb, Inc. (the “Company”) has adopted and authorized the PFSweb, Inc. 2005 Employee Stock and Incentive Plan (the “Plan;” terms defined in the Plan having the same meaning when used herein); and

WHEREAS, the Plan provides for the issuance of Performance-Based Cash Awards to be paid upon achievement of such performance goals as the Committee establishes, from time to time, with regard to such Awards; and

WHEREAS, the Committee has determined it is in the best interests of the Company to adopt this 2010 Management Bonus Plan (the “Bonus Plan”) to set forth the performance goals for the issuance of Performance-Based Cash Awards under the Plan for fiscal year 2010;

NOW, THEREFORE, the Committee hereby adopts, authorizes and approves the following:

I. Purpose and Terms of the Bonus Plan:

A. The Bonus Plan has been established by the Committee pursuant to the Plan to attract, motivate, retain, and reward the Company’s chief executive officer and other executive officers, officers and senior management for assisting the Company in achieving its operational goals through exceptional performance.

B. Under the terms of the Bonus Plan, Performance-Based Cash Awards, if any, will be awarded to the Chief Executive Officer and other executive officers, officers and senior management based on, and subject to, the achievement of the following performance goal. The performance goal shall be for the Company to exceed during the 2010 fiscal year, on a quarterly basis, the corresponding projected quarterly adjusted earnings before interest, taxes, depreciation, amortization, stock based compensation, and impairment charges contained in the Company’s 2010 annual budget (or, in case of a budgeted operating loss, to reduce the operating loss below the budgeted operating loss) (“Adjusted EBITDA”).

C. Subject to the limitation set forth in II.A. below, the maximum aggregate amount to be awarded for any quarter shall be equal to the sum of the following: (i) fifty percent (50%) of the first Two Hundred Thousand Dollars ($200,000.00) in amount by which the Adjusted EBITDA for such quarter exceeded the budgeted Adjusted EBITDA for such quarter (the “Excess EBITDA”) up to a maximum of One Hundred Thousand Dollars ($100,000.000), plus (ii) if the amount of Excess EBITDA for such quarter exceeds Two Hundred Thousand Dollars ($200,000.00), twenty percent (20%) of the amount of such excess.

II. Determination of Performance-Based Cash Awards:

A. The total bonus amount (the “Bonus Pool Amount”) under clauses (i) and (ii) of Section I.C. above for each quarter shall not exceed Two Hundred Thousand Dollars ($200,000.00). The determination of Adjusted EBITDA, Excess EBITDA and the Bonus Pool

Amount shall be determined on an individual quarter by quarter basis and the calculation of Adjusted EBITDA shall be made without giving effect to the award or payment of Performance Based Cash Awards hereunder.

B. Following the end of each quarter, the Committee shall grant Performance-Based Cash Awards in an aggregate amount to be determined by it, but not to exceed the amount set forth in II.A. above, and shall allocate and award such Performance-Based Cash Awards to the Chief Executive Officer and other executive officers, officers and senior management based on the Committee's determination of the relative contribution of each such person. The Committee shall have sole discretion in determining the individuals to whom Performance-Based Cash Awards are to be granted and the amounts thereof. The Chief Executive Officer shall not be present for the Committee's deliberations concerning any Performance-Based Cash Award to be awarded to him, but he shall be present and shall advise the Committee regarding the Performance-Based Cash Awards to be awarded to the other executive officers, officers and senior management.

C. Performance-Based Cash Awards shall be paid as soon as practicable following the Committee's determination and designation thereof. Each recipient of a Performance-Based Cash Award shall be responsible for the payment of all federal and state income taxes arising upon his or her receipt thereof.

D. The Committee reserve the right to modify this Bonus Plan and performance goal at any time, and the adoption of this Bonus Plan does not limit the ability of the Committee to award other Awards under the Plan nor does it restrict the ability of the Company to pay or provide for the payment of any compensation to any person.

E. Any Performance Based Cash Award paid hereunder shall be subject to recoupment by the Company to the extent, and in the amount, required by applicable law.

IN WITNESS WHEREOF, the undersigned, being all the members of the Committee, have adopted and authorized the foregoing as of the 27th day of April, 2010.

James Reilly

Timothy Murray

EXHIBIT 31.1

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

I, Mark Layton, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period 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 operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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; and

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 the 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 17, 2010

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

EXHIBIT 31.2

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

I, Tom Madden, certify that:

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

2. Based on my knowledge, this 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 period 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 operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

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

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

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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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; and

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 the 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 17, 2010

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, 2010 (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 17, 2010	/s/ Mark C. Layton Mark C. Layton Chief Executive Officer
May 17, 2010	/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.