

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

REGISTRATION NO. 333-87657

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 3

TO  
FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

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

MARK C. LAYTON  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
PFSWEB, INC.  
500 NORTH CENTRAL EXPRESSWAY  
PLANO, TEXAS 75074  
(972) 881-2900  
(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

Copies to:

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GIBSON, DUNN & CRUTCHER LLP  
200 PARK AVENUE  
NEW YORK, NEW YORK 10166  
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Approximate date of commencement of proposed sale to the public: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

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

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

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

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

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

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

THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME  
EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a),  
MAY DETERMINE.

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

SUBJECT TO COMPLETION, DATED NOVEMBER 23, 1999

PROSPECTUS

3,100,000 SHARES

[PFS LOGO]

COMMON STOCK

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

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There is currently no public market for the common stock. Our common stock has been approved for listing on the Nasdaq National Market under the symbol "PFSW."

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

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

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

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

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INVESTING IN THE COMMON STOCK INVOLVES RISKS.  
SEE "RISK FACTORS" BEGINNING ON PAGE 5.

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

HAMBRECHT & QUIST

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

, 1999

[Inside Front Cover]

A picture depicting two concentric circles. The outer circle contains the words "Account Management", "Technology", "Financial", "PFSweb Professional Services Organization", "Project Management", and "Sales Executive". The inner circle contains the words "Order Management Services", "Total Transaction Management", "Customer Care Services", "Distribution Services", "Billing Services", and "Total Transaction Management".

PFSweb logo and "From the click of the mouse to the knock at the house"  
(TM)

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

## PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the information under "Risk Factors" beginning on page 5 and the financial statements beginning on page F-1, before making an investment decision.

## OUR BUSINESS

We are an international provider of transaction management services for both traditional commerce and electronic commerce, or e-commerce, companies. We provide a broad range of services, including order management, customer care services, billing services, information management and fulfillment and distribution services. Our fulfillment and distribution services are conducted at our warehouses and include picking, packing and shipping our clients' customer orders. We offer our services as an integrated solution, which enables our clients to outsource their transaction management needs to a single source and to focus on their core competencies. We currently provide transaction management services to over 30 clients that operate in a range of markets, including apparel, computer products, printers, sporting goods and consumer electronics, among others. During fiscal year 1999, IBM was our largest client and represented approximately 93% of our total revenue. Within the past twelve months, we have signed contracts with over 10 new clients, including Hewlett-Packard, Thomson Consumer Electronics, Nokia, Global Sports Interactive and ISA International plc. Collectively, these new clients represented approximately two percent of our total revenue for the six month period ended September 30, 1999.

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

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

We offer a comprehensive and integrated set of transaction management services, including:

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

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

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

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

In order to execute our strategy, we must, among other things, continue to incur significant operating and marketing expenses, invest in additional technology infrastructure and maintain sufficient capacity. In addition, if our spin-off from Daisytek does not occur, our ability to grow our business with some manufacturers and realize other benefits may be adversely affected. See "Risk Factors" and "Proposed Spin-off" for a more complete discussion of these and other risk factors.

#### OUR RELATIONSHIP WITH DAISYTEK

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

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

We were incorporated in Delaware in 1999 to be, upon completion of this offering, the parent holding company for PFS. Our principal executive offices are located at 500 North Central Expressway, Plano, Texas 75074, and our telephone number is 972-881-2900.

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

## THE OFFERING

Common stock offered by PFSweb.....	3,100,000 shares
Common stock to be outstanding after the offering.....	17,405,000 shares
Use of proceeds.....	<ul style="list-style-type: none"> <li>- to repay an intercompany payable to Daisytek (\$22.3 million as of September 30, 1999);</li> <li>- to acquire certain assets from Daisytek of approximately \$5.4 million;</li> <li>- for presently anticipated capital expenditures of \$7-\$10 million, a portion of which we may finance through capital or operating leases; and</li> <li>- the balance of the proceeds for general working capital and possible acquisitions. See "Use of Proceeds."</li> </ul>
Nasdaq National Market symbol...	"PFSW"

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

## FISCAL YEAR

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



## SUMMARY FINANCIAL INFORMATION

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

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

Our historical financial statements are only of limited use in making an investment decision. This is because the financial presentation of our operations in the future will be different from what they have been historically. Specifically:

- we have new agreements with IBM, one of our major clients;
- we will have a new agreement with Daisytek; and
- we will acquire various assets and liabilities from Daisytek upon completion of this offering.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Future Financial Presentation" for a complete discussion of the change in our business model and its effect on our financial presentation.

	FISCAL YEARS ENDED MARCH 31,				UNAUDITED SIX MONTHS ENDED SEPTEMBER 30,		
			1999		1999		
	1997	1998	ACTUAL	PRO FORMA	1998	ACTUAL	PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				(IN THOUSANDS, EXCEPT PER SHARE DATA)		
	(UNAUDITED)						
<b>COMBINED STATEMENT OF OPERATIONS DATA:</b>							
Revenues:							
Product revenue.....	\$16,543	\$45,804	\$ 93,702	\$ 93,702	\$41,327	\$55,778	\$55,778
Service fee revenue.....	1,034	3,539	7,547	7,547	2,761	7,004	7,004
Total revenues.....	17,577	49,343	101,249	101,249	44,088	62,782	62,782
Gross profit.....	1,213	3,743	7,591	7,591	2,690	5,245	5,245
Income (loss) from operations.....	139	38	880	880	114	(626)	(626)
Net income (loss).....	\$ 24	\$ (75)	\$ 292	\$ 926	\$ (16)	\$ (773)	\$ (122)
	=====	=====	=====	=====	=====	=====	=====
<b>PER SHARE DATA:</b>							
Net income (loss) per share:							
Basic and diluted.....	\$ 0.00	\$ (0.01)	\$ 0.02	\$ 0.05	\$ (0.00)	\$ (0.05)	\$ (0.01)
	=====	=====	=====	=====	=====	=====	=====
Weighted average number of shares outstanding:							
Basic and diluted.....	14,305	14,305	14,305	17,405	14,305	14,305	17,405

SEPTEMBER 30, 1999  
-----  
ACTUAL    PRO FORMA  
-----  
(IN THOUSANDS)  
(UNAUDITED)

## COMBINED BALANCE SHEET DATA:

Working capital.....	\$ 1,161	\$13,841
Total assets.....	29,988	42,668
Long-term obligations.....	22,319	--
Shareholders' equity (deficit).....	(238)	34,761

## RISK FACTORS

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

## RISKS RELATED TO OUR BUSINESS

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

The historical financial information included in this prospectus may not reflect what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented or what our results of operations, financial position and cash flows will be in the future. This is because:

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

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

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

Our revenue is primarily transaction based and will fluctuate with the volume of transactions or level of sales of the products by our clients for which we provide transaction management services. If we dedicate significant resources to clients whose business does not generate substantial transactions or whose products do not generate substantial customer sales, our business may be materially adversely affected. In addition, all of our agreements with our clients are terminable by the client at will. Therefore, we cannot assure you that any of our clients will continue to use our services for any period of time.

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

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

YOU SHOULD READ THE ENTIRE PROSPECTUS CAREFULLY AND SHOULD NOT CONSIDER ANY PARTICULAR STATEMENT HEREIN OR IN A BOOK RECENTLY PUBLISHED BY MARK LAYTON OR PUBLISHED NEWS ARTICLES ABOUT THIS BOOK OR OUR COMPANY WITHOUT CAREFULLY CONSIDERING THE RISKS AND OTHER INFORMATION CONTAINED HEREIN.

Mark Layton, our Chairman, President and Chief Executive Officer, recently published a book entitled .coms or .bombs ... strategies for profit in e-business. In this book, Mr. Layton describes the growth of e-commerce and the opportunities that the Internet offers for businesses today. In particular, the book contains statements concerning e-business such as "making a profit in e-business is the greatest business of the new millennium" and "the profit opportunity is endless".

Similarly, the book describes the growth in e-commerce with statements such as:

"The fuss is over the \$90 billion shift and countless other dollars that will be influenced by Internet shopping in the next three years";

"Few, if any, industries or products will be immune to the ever-growing revolution that the growth of the Internet and electronic commerce is bringing";

"My contention is that e-commerce will grow from virtually immeasurable part of total commerce today to more than 20 percent of all commerce in the next five to 10 years"; and

"[w]ithin five short years, according to Mary Tolan, a partner with Andersen Consulting, e-commerce sales are projected to represent 25 percent of all retail sales in the United States. The dollars represented by this projection are generally not market-growth dollars. The dollars represent market share that is changing to a new shopping paradigm."

The book also offers an explanation of the growth in e-commerce by noting that "Several demographic factors will combine in the next five to 10 years to make a significant major shift in e-commerce activity" and then listing factors such as youth as consumers with increasing spending power and computer literacy, the purchasing power of baby boomers and the spending habits of women.

Similarly, recent press articles, including a press release issued to Business Wire dated October 11, 1999 and an article in VARBusiness dated November 4, 1999, describe the book and contain information about our company and e-business.

In addition, the book describes our company in a manner that does not include all of the risks and uncertainties described in this prospectus. For example, it says "PFSweb offers the two key elements of a successful e-business we have discussed; outstanding e-experience features and efficient operating costs (that secret formula!) that can benefit your business."

These statements should not be considered in isolation, and you should make your investment decision only after reading this entire prospectus carefully. You should only consider these statements after carefully evaluating all of the information in this prospectus, including the risks described in this section and throughout this prospectus.

Neither we nor any of the underwriters in this offering have confirmed, endorsed or adopted any statements other than those contained in this prospectus for utilization by, or distribution to, prospective purchasers in this offering. To the extent any other statements are inconsistent or conflict with the information contained in this prospectus, or relate to information not contained in this prospectus, they are disclaimed by us and the underwriters. Accordingly, you should not rely upon any other statements that were not made by us.

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

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

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

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

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

Many companies offer, on an individual basis, one or more of the same services we do, and we face competition from many different sources depending upon the type and range of services requested by a potential client. Our competitors include vertical outsourcing, which are companies that offer a single function, such as call centers, public warehouses or credit card processors, and many of these companies have greater capabilities than we do for the function they provide. We also compete against transportation logistics providers who offer product management functions as an ancillary service to their primary transportation services. In many instances, our competition is the in-house operations of our potential clients themselves. The in-house operations departments of potential clients often believe that they can perform the same services we do, while others are reluctant to outsource business functions which involve direct customer contact. We cannot be certain that we will be able to compete successfully against these or other competitors in the future.

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

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

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

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

WE ARE SUBJECT TO RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS.

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

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

Any one or more of these factors may materially adversely affect our business in a number of ways, such as increased costs, operational difficulties and reductions in revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

The "Year 2000" problems of our clients, our internal systems and companies on the Internet generally could materially adversely affect our systems or operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Issue."

## RISKS RELATED TO DAISYTEK

THERE IS A RISK OF CHANGE IN CONTROL OF DAISYTEK.

Daisytek recently announced that it had received an unsolicited offer to acquire all of Daisytek's outstanding shares. After considering a variety of factors, Daisytek's board determined that the offer was inadequate and inconsistent with Daisytek's previously disclosed plans to complete the spin-off. If, however, the bidder decides to begin a tender offer for the outstanding shares of Daisytek without the approval of Daisytek's board, such an offer, or stockholder litigation in connection with such an offer, could significantly divert our attention away from our operations and disrupt or delay our proposed spin-off from Daisytek. In addition, if the bidder is successful in acquiring control of Daisytek prior to the proposed spin-off, it would control a majority of our shares and the spin-off would likely not occur.

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

There are various conditions which must be satisfied, or waived by Daisytek in its sole discretion, prior to the completion of the spin-off. We cannot assure you whether or when these conditions will be satisfied or waived by Daisytek. If any of these conditions are neither satisfied, nor waived by Daisytek, in a timely manner, the spin-off may not be completed. If the spin-off is not completed, we will continue to be controlled by Daisytek. If that happens, the price of our shares in the public market could be adversely affected because of the reduced liquidity and the uncertainty as to if, when and how the shares held by Daisytek would be sold or distributed to the public. This would, in turn, adversely affect the potential benefits offered by employee equity incentive compensation programs, such as employee stock options. In addition, we believe that our control by Daisytek may limit our ability to market our services to some manufacturers. Even if all of the conditions to the spin-off are satisfied, or waived, we cannot assure you when the spin-off will occur or whether or when we will obtain the expected benefits.

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

We have historically been dependent on Daisytek for various services, including facilities, human resources, management information systems, as well as for working capital. We will enter into a transition services agreement with Daisytek under which Daisytek will continue to provide certain of these services to us until the spin-off is completed, but not later than one year following the closing of this offering. When the term of this agreement expires, we will need either to extend the term of this agreement, engage other entities to perform these services or perform these services ourselves. We cannot assure you that Daisytek will continue to provide these services after the initial term of the agreement, or that the cost of these services will not be significantly higher if we purchase services from other parties or devote resources to handle these functions internally.

In addition, we will be providing transaction management services for Daisytek's U.S. wholesale consumable computer supplies business under a five-year agreement. Daisytek is one of our largest clients, and we currently expect that Daisytek will remain a significant client for the foreseeable future. Consequently, a substantial portion of our business will be dependent upon the success of Daisytek's sales and marketing of its products. Daisytek has the right to terminate the agreement, subject to the payment of a termination fee. In addition, Daisytek has reported that it has experienced, and may continue to experience, a decline in sales growth in its U.S. wholesale consumable computer supplies business. This decline may adversely affect our service fee revenue arising under this agreement.

All of our agreements with Daisytek were made in the context of a parent-subsidary relationship and were negotiated in the overall context of our spin-off from Daisytek. We cannot

assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

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

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

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

WE MAY HAVE POTENTIAL BUSINESS CONFLICTS OF INTEREST WITH DAISYTEK.

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

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

We cannot assure you that we will be able to resolve any potential conflicts or that, if resolved, we would not be able to receive more favorable resolution if we were dealing with an unaffiliated party. Our transaction management services agreement with Daisytek and the other agreements we will enter into with Daisytek may be amended from time to time upon agreement between the parties. As long as we are controlled by Daisytek, we cannot assure you that Daisytek would not require us to agree to an amendment to the transaction management services agreement or any other agreement that may be more or less favorable to us than the current terms of the agreement. In addition, our ability to incur indebtedness, make acquisitions and dispositions and issue stock is restricted under the terms of an agreement that we will enter into with Daisytek.



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

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

WE HAVE POTENTIAL LIABILITY TO DAISYTEK FOR TAX INDEMNIFICATION OBLIGATIONS.

Daisytek has announced that it plans to complete the spin-off of our company sometime in mid-2000 (and within one year of the closing of this offering). We will indemnify Daisytek for any tax liability it suffers arising out of our actions, or certain actions that may exist, before or after the spin-off that would cause the spin-off to lose its qualification as a tax-free distribution for federal income tax purposes. These actions include any event involving the acquisition of the shares of our capital stock after the spin-off which has the effect of disqualifying the spin-off from tax-free treatment, whether or not the event is the result of our direct action or within our control. If we cause the spin-off to not qualify as a tax-free distribution, Daisytek would incur federal income tax (which currently would be imposed at a 35% rate), and possibly state income taxes on the gain inherent in the shares distributed, which would be based upon the market value of the PFSweb shares at the time of the spinoff. In the event that we are required to indemnify Daisytek in respect of this liability, it would have a material adverse effect on our cash flow and business operations. See "Proposed Spin-off".

WE HAVE POTENTIAL LIABILITY FOR DAISYTEK'S TAX OBLIGATIONS.

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

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

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

#### RISKS RELATED TO OUR INDUSTRY

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

Our business could be materially adversely affected if the trend toward outsourcing declines or reverses, or if corporations bring previously outsourced functions back in-house. Particularly during

general economic downturns, businesses may bring in-house previously outsourced functions in order to avoid or delay layoffs.

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

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our services and the underlying network infrastructure. If we are unable to adapt to changing market conditions, client requirements or emerging industry standards, our business could be adversely affected. The Internet and e-commerce are characterized by rapid technological change, changes in user requirements and preferences, frequent new product and service introductions embodying new technologies and the emergence of new industry standards and practices that could render our technology and systems obsolete. Our success will depend, in part, on our ability to both internally develop and license leading technologies to enhance our existing services and develop new services. We must continue to address the increasingly sophisticated and varied needs of our clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of proprietary technology involves significant technical and business risks. We may fail to develop new technologies effectively or to adapt our proprietary technology and systems to client requirements or emerging industry standards.

#### RISKS RELATED TO THIS OFFERING

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

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

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

The initial public offering price is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. The net tangible book value per share represents the amount of our total tangible assets less our total liabilities divided by the total number of shares of common stock outstanding prior to this offering. Accordingly, purchasers of common stock will experience immediate and substantial net tangible book value dilution of approximately \$11.00 per share, or approximately 84.6% of the offering price of \$13.00 per share.

WE DO NOT EXPECT TO PAY DIVIDENDS TO OUR STOCKHOLDERS.

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

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

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

#### FORWARD-LOOKING STATEMENTS

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

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

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

## PROPOSED SPIN-OFF

## OUR HISTORY

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

## SPIN-OFF FROM DAISYTEK

## Daisytek's Plan to Spin-off PFSweb

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

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

- Receipt by Daisytek of a ruling by the Internal Revenue Service that, among certain other tax consequences of the transaction, the spin-off will qualify as a tax-free distribution for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek or its shareholders. Daisytek presently intends to submit its ruling request to the IRS prior to the completion of this offering, and it generally takes four to six months to receive a ruling from the IRS. Whether a favorable ruling will be issued depends upon a number of determinations that are based on the particular facts and circumstances of Daisytek and our company. Although we believe that these determinations will be made favorably to Daisytek, there is no guarantee that Daisytek will receive a favorable ruling. If within one year following completion of this offering, Daisytek has not received a favorable ruling, Daisytek may, in its sole and absolute discretion, determine to proceed instead on the basis of an opinion from its professional advisor, in form and substance reasonably satisfactory to it, as to the qualification of the transaction for tax-free treatment.
- Obtaining any material consents necessary to consummate the spin-off which shall be in full force and effect.
- No court orders, injunctions, decrees, regulations or other legal restraint prohibiting or restricting the completion of the spin-off shall exist.
- No events or developments shall have occurred subsequent to the closing of this offering that, in the sole judgement of Daisytek, would result in the spin-off having a materially adverse effect on Daisytek, PFSweb, or their shareholders.

### Benefits of the Spin-off

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

- To Raise Equity Capital at a Higher Valuation. We believe that capital for PFSweb can be raised at a higher valuation through an offering of our stock, rather than Daisytek stock. This is because we believe companies in the e-commerce business, such as PFSweb, are generally currently valued in the public market at a higher valuation compared to distribution companies, such as Daisytek. We also believe that it is beneficial to our capital raising efforts that Daisytek has announced its plan to complete the spin-off of our company. This is because the public market's perception that Daisytek will continue to control our company (other than for a limited period of time prior to the spin-off) could adversely affect the price of our shares in the public market because of the reduced liquidity and uncertainty as to if, when and how the shares held by Daisytek would be sold or distributed to the public.
- Better Incentives for Employees and Greater Accountability. We expect that the motivation of our employees and the focus of our management will be strengthened by incentive compensation programs tied to the market performance of stock representing an interest solely in our business unit. The separation will allow better and more direct incentives for our employees and management. As a separate, publicly traded company after the spin-off, we will be able to implement stock-based compensation plans for our employees and management, which will be focused entirely on the successful results and achievements of our business. For example, as a separate, publicly traded company, we will be able to tie incentive compensation of our employees more closely to the results of our business segment. We believe this will enhance our ability to attract and retain qualified personnel.
- Competition. We believe that our ability to market our services to certain manufacturers of certain products may be hampered by our ownership by Daisytek. In particular, we believe that for certain manufacturers, our separation from Daisytek would reduce or eliminate any potential channel conflicts as well as any concern regarding the potential disclosure of proprietary information.
- Greater Strategic Focus. As a result of having our own board of directors and separate management team, we expect to have a sharper focus on our business and strategic opportunities. We will also have greater ability to modify business processes to better fit the needs of our customers, business units and employees.

### Separation, Transaction Management and Transitional Arrangements

Concurrently with the completion of this offering, we and Daisytek will enter into certain agreements providing for the separation of our business from Daisytek, including a master separation agreement. These agreements generally provide for various interim and ongoing relationships between the parties. Under these agreements, Daisytek will transfer to us assets, including all fixed assets in its Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek \$5.4 million in cash and assume \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets. In connection with this offering, we will also repay our payable to Daisytek. In addition, we and Daisytek will enter into a transaction management services agreement under which we will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business. We and Daisytek will also enter into a transition services agreement under which Daisytek will provide us with transitional services, such as payroll and administrative services, use of facilities and certain shared management information services. These services will generally be available until the completion of the spinoff, but not later than one year following completion of this offering.

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

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

#### USE OF PROCEEDS

Assuming an initial public offering price of \$13.00 per share, we will receive net proceeds of approximately \$35.0 million from the sale of 3,100,000 shares of common stock in this offering (\$40.6 million if the underwriters exercise their over-allotment option in full). We intend to use the net proceeds of this offering:

- to repay an intercompany payable to Daisytek (\$22.3 million as of September 30, 1999) which is payable on demand and accrues interest at a fluctuating rate equal to Daisytek's cost of funds (6.5% as of September 30, 1999), the proceeds of which were used within the past year to fund working capital needs and to fund an increase in a non-current receivable from one of our clients;
- to acquire from Daisytek all fixed assets in its Memphis distribution facility, as well as certain assets providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb for approximately \$5.4 million, which represents the net book value of these assets;
- for presently anticipated capital expenditures of approximately \$7-\$10 million, a portion of which may be financed through capital or operating leases; and
- for general working capital and possible acquisitions.

#### DIVIDEND POLICY

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

## CAPITALIZATION

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

- on an actual basis; and
- on a pro forma basis after giving effect to the following:
  - the contribution from Daisytek of \$20,000 for 14,305,000 shares of our common stock;
  - the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital; and
  - the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of \$13.00 per common share, and the application of approximately \$22.3 million of the estimated \$35.0 million net proceeds (including \$466,000 of deferred offering costs that have already been paid as of September 30, 1999) to repay the payable to Daisytek.

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

	AS OF SEPTEMBER 30, 1999	
	ACTUAL	PRO FORMA
	-----	-----
	(IN THOUSANDS, EXCEPT SHARE DATA)	
Cash.....	\$ 1,247	\$14,393
	=====	=====
Payable to Daisytek.....	\$22,319	\$ --
Shareholders' Equity:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized, none issued and outstanding.....	--	--
Common stock, \$0.001 par value; 40,000,000 shares authorized; 17,405,000 shares issued and outstanding (pro forma).....	--	17
Additional paid-in capital.....	--	34,921
Daisytek's net equity investment.....	(61)	--
Accumulated other comprehensive income.....	(177)	(177)
	-----	-----
Total shareholders' equity (deficit).....	(238)	34,761
	-----	-----
Total capitalization.....	\$22,081	\$34,761
	=====	=====

## DILUTION

The net tangible book value of our common stock as of September 30, 1999 was \$(0.2) million, or \$(0.02) per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the total number of shares of common stock outstanding prior to this offering.

After giving effect to this offering and the receipt of \$35.0 million of net proceeds from this offering (based on an assumed initial public offering price of \$13.00 per share), the pro forma net tangible book value of the common stock as of September 30, 1999 would have been approximately \$34.8 million, or \$2.00 per share. This amount represents an immediate increase in net tangible book value of \$2.02 per share to Daisytek, our existing stockholder, and an immediate dilution in net tangible book value of \$11.00 per share to purchasers of common stock in this offering. Dilution is determined by subtracting pro forma net tangible book value per share after this offering from the amount of cash paid by a new investor for a share of common stock. The following table illustrates such dilution:

Assumed initial public offering price per share.....		\$13.00
Net tangible book value per share at September 30, 1999...	\$(0.02)	
Increase in pro forma net tangible book value per share attributable to new investors.....	2.02	
	-----	
Pro forma net tangible book value per share after this offering.....		2.00
		-----
Dilution per share to new investors.....		\$11.00
		=====

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

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

(1) If the Underwriters' over-allotment option is exercised in full, sales in this offering will reduce the number of shares of common stock held by the existing stockholder to approximately 80.1% of the total shares of common stock outstanding after the offering and will increase the number of shares held by new investors to 3,565,000, or approximately 19.9% of the total shares of common stock outstanding after the offering. See "Underwriting."

(2) The foregoing table excludes outstanding stock options to purchase an aggregate of 1,376,500 shares of common stock at a weighted average exercise price of \$10.51 per share. In addition, upon completion of the spin-off, stock options exercisable for shares of Daisytek common stock held by PFSweb employees will be converted into stock options exercisable for shares of our common stock. It is not possible to specify how many shares of our common stock will be subject to such stock options, as it is not known how many stock options to purchase Daisytek common stock held by PFSweb employees will remain unexercised and outstanding upon completion of the spin-off. We may also issue additional shares of common stock upon exercise of future stock option grants or equity awards, which could also result in additional dilution to then-existing stockholders.



## SELECTED COMBINED HISTORICAL AND PRO FORMA FINANCIAL DATA

## HISTORICAL PRESENTATION

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

## PRO FORMA PRESENTATION

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

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

- the contribution from Daisytek of \$20,000 for 14,305,000 shares of our common stock;
- the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital; and
- the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of \$13.00 per common share, and the application of the estimated \$35.0 million net proceeds to repay the outstanding payable to Daisytek, reduce deferred offering costs and increase cash. The pro forma adjustments reflect the reduction of interest expense previously charged by Daisytek.

HISTORICAL AND PRO FORMA FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEARS ENDED MARCH 31,				FISCAL YEAR ENDED MARCH 31, 1999	
	1995	1996	1997	1998	ACTUAL	PRO FORMA
	(UNAUDITED)				(UNAUDITED)	
<b>COMBINED STATEMENT OF OPERATIONS DATA:</b>						
<b>Revenues:</b>						
Product revenue.....	\$ --	\$ --	\$16,543	\$45,804	\$ 93,702	\$ 93,702
Service fee revenue.....	65	111	1,034	3,539	7,547	7,547
Total revenues.....	65	111	17,577	49,343	101,249	101,249
<b>Costs of revenues:</b>						
Cost of product revenue.....	--	--	15,768	43,392	88,335	88,335
Cost of service fee revenue.....	65	67	596	2,208	5,323	5,323
Total costs of revenues.....	65	67	16,364	45,600	93,658	93,658
Gross profit.....	--	44	1,213	3,743	7,591	7,591
Percent of revenues.....	--%	39.6%	6.9%	7.6%	7.5%	7.5%
Selling, general and administrative expenses.....	--	--	1,074	3,705	6,711	6,711
Income from operations.....	--	44	139	38	880	880
Percent of revenues.....	--	39.6%	0.8%	0.1%	0.9%	0.9%
Interest (income) expense, net.....	41	53	77	143	374	(665)
Income (loss) before income taxes.....	(41)	(9)	62	(105)	506	1,545
Provision (benefit) for income taxes.....	(16)	(2)	38	(30)	214	619
Net income (loss).....	\$ (25)	\$ (7)	\$ 24	\$ (75)	\$ 292	\$ 926
<b>PER SHARE DATA:</b>						
Net income (loss) per share:						
Basic and diluted(a).....	\$ (0.00)	\$ (0.00)	\$ 0.00	\$(0.01)	\$ 0.02	\$ 0.05
Weighted average number of shares outstanding:						
Basic and diluted(a).....	14,305	14,305	14,305	14,305	14,305	17,405

- (a) On an historical basis, reported basic and diluted net income per share was determined based on net income divided by the 14,305,000 shares outstanding prior to this offering. For purposes of the net income per share calculation, the shares outstanding prior to this offering are treated as outstanding for all historical periods presented. Basic and diluted pro forma net income per share are calculated based on common stock outstanding of 17,405,000 shares upon completion of this offering. It does not include up to 465,000 shares of common stock which the underwriters have the option to exercise solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, basic and diluted pro forma net income per share would be \$0.05 for the fiscal year ended March 31, 1999 and basic and diluted pro forma net loss per share would be \$(0.01) for the six months ended September 30, 1999. There were no potentially dilutive securities outstanding during the periods presented.

SIX MONTHS ENDED SEPTEMBER 30, 1998	SIX MONTHS ENDED SEPTEMBER 30, 1999	
-----	ACTUAL	PRO FORMA
-----	-----	-----

(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

## COMBINED STATEMENT OF OPERATIONS DATA (CONTINUED):

Revenues:			
Product revenue.....	\$41,327	\$55,778	\$55,778
Service fee revenue.....	2,761	7,004	7,004
	-----	-----	-----
Total revenues.....	44,088	62,782	62,782
	-----	-----	-----
Costs of revenues:			
Cost of product revenue.....	39,243	52,639	52,639
Cost of service fee revenue.....	2,155	4,898	4,898
	-----	-----	-----
Total costs of revenues.....	41,398	57,537	57,537
	-----	-----	-----
Gross profit.....	2,690	5,245	5,245
Percent of revenues.....	6.1%	8.4%	8.4%
Selling, general and administrative expenses.....	2,576	5,871	5,871
	-----	-----	-----
Income (loss) from operations.....	114	(626)	(626)
Percent of revenues.....	0.3%	(1.0)%	(1.0)%
Interest (income) expense, net.....	139	650	(416)
	-----	-----	-----
Loss before income taxes.....	(25)	(1,276)	(210)
Benefit for income taxes.....	(9)	(503)	(88)
	-----	-----	-----
Net loss.....	\$ (16)	\$ (773)	\$ (122)
	=====	=====	=====
PER SHARE DATA:			
Net loss per share:			
Basic and diluted(a).....	\$ (0.00)	\$ (0.05)	\$ (0.01)
	=====	=====	=====
Weighted average number of shares outstanding:			
Basic and diluted(a).....	14,305	14,305	17,405

AS OF MARCH 31,					AS OF SEPTEMBER 30, 1999	
1995	1996	1997	1998	1999	ACTUAL	PRO FORMA
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(UNAUDITED) (UNAUDITED)

## COMBINED BALANCE SHEET DATA (IN THOUSANDS):

Working capital.....	\$507	\$579	\$ 5,757	\$ 1,344	\$14,636	\$ 1,161	\$13,841
Total assets.....	524	591	15,614	20,911	69,057	29,988	42,668
Long-term obligations.....	550	629	5,851	1,827	29,029	22,319	--
Shareholders' equity (deficit).....	(43)	(49)	(8)	(155)	581	(238)	34,761

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

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

OVERVIEW

We are an international provider of transaction management services to both traditional and e-commerce companies. We derive our revenues from a broad range of services, including order management, customer care services, billing services, information management and fulfillment and distribution services. Our fulfillment and distribution services are conducted at our warehouses and include picking, packing and shipping our clients' customer orders. We offer our services as an integrated solution, which enables our clients to outsource their complete transaction management needs to a single source and to focus on their core competencies. We currently provide transaction management services to over 30 clients that operate in a range of vertical markets, including apparel, computer products, printers, sporting goods and consumer electronics, among others. During fiscal year 1999, IBM was our largest client and represented approximately 93% of our total revenue. Within the past twelve months, we have signed contracts with over 10 new clients, including Hewlett-Packard, Thomson Consumer Electronics, Nokia, Global Sports Interactive and ISA International plc. Collectively, these new clients represented approximately two percent of our total revenue for the six month period ended September 30, 1999.

Our service fee revenue is typically charged on a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for call center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors. Many of our contracts with our clients involve third-party vendors who provide additional services such as package delivery. The costs we are charged by these third-party vendors for these services are passed on to our clients (and, in many cases, our clients' customers) and are not reflected in our revenue or expense. Historically, our services have also included purchasing and reselling client product inventory. In these arrangements, our product revenue was recognized at the time product was shipped. During the quarter ended September 30, 1999, our primary client agreement under which we previously purchased and sold inventory was restructured to provide transaction management services only on a service fee basis.

Our expenses are comprised of:

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

## FUTURE FINANCIAL PRESENTATION

Our historical financial statements are only of limited use in making an investment decision. This is because the financial presentation of our operations in the future will be different from what they have been historically. In this section we:

- explain how our historical financial statements reflect product revenue and expenses arising from our sale of IBM products;
- describe the restructuring of our IBM agreements and its effect on our future financial presentation;
- explain how our historical financial statements do not reflect our new agreement with Daisytek, which will go into effect upon the completion of this offering;
- describe the service fee revenue which will be generated by our new agreements with IBM and Daisytek; and
- explain that because of these changes, our historical financial statements may not provide a meaningful comparison to our future financial statements.

In 1996, we entered into an agreement with the printer supplies division of IBM. Under this agreement, we provided IBM with various transaction management services, such as call center services and order fulfillment and distribution. We also served as an IBM master distributor of printer supply products. Under this master distributor arrangement, we purchased the printer supply products from IBM and resold them to IBM customers. Following our initial agreement with the printer supplies division, we entered into several similar agreements with other divisions of IBM, both in the U.S. and Europe, and expanded our existing agreements to include more product lines.

During the quarter ended September 30, 1999, we, Daisytek and IBM entered into new agreements to conform to our current business model. Under these new agreements, Daisytek will act as the master distributor of the IBM products and we will continue to provide various transaction management services. As part of this restructuring, we transferred to Daisytek the IBM product inventory which we held as the master distributor, together with our customer accounts receivable and our accounts payable owing to IBM in respect of the product inventory. The purpose of the restructuring was to separate the master distributor and transaction management responsibilities between ourselves and Daisytek so that each could focus on its core competencies.

As a result of the restructuring of the IBM agreements, our historical financial statements may not provide a meaningful comparison to our future financial statements. This is because, as a master distributor under our prior agreement, we recorded revenue as product revenue as we sold the product to IBM customers. Similarly, our gross profit was based upon the difference between our revenue from product sales and the cost of purchasing the product from IBM. In the future, however, our revenue under the new IBM agreements will be service fee revenue that will be payable by Daisytek and will be based upon a variable percentage of Daisytek's gross profit arising from its IBM product sales.

As a result of this restructuring of our IBM agreements, our total revenues arising under our new IBM agreements will be reduced, as compared to our total revenues arising under our prior IBM agreements. However, our gross profit margin as a percent of service fee revenue under our new IBM agreements is anticipated to be significantly higher as compared to our gross profit margin as a percent of product revenue under our prior IBM agreements.

In addition, upon completion of this offering, we will enter into a transaction management services agreement with Daisytek. Under this agreement, we will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business. We will receive service fee revenue based upon a percentage of Daisytek's shipped product revenue. Consequently,

our historical financial statements do not reflect the service fee revenue we will receive from Daisytek under this new agreement.

Finally, upon completion of this offering, Daisytek will transfer to us fixed assets and other assets which will be used in our business. We will pay to Daisytek a portion of the net proceeds of this offering and assume capital and operating lease obligations related to these assets. Consequently, our historical financial statements do not reflect this transaction.

In order to show how we evaluate our business internally and how we will present our financial statements in the future because of our new arrangements with IBM and Daisytek, we have set forth below an adjusted presentation of our total historical revenue and cost of revenue. This presentation shows, retroactively, what our service fee revenue and cost of service fee revenue would have been if:

- our new agreements with IBM and Daisytek had been in effect during the periods presented; and
- our acquisition of the assets and liabilities that Daisytek will transfer to us upon completion of this offering had occurred as of the beginning of the respective periods presented.

	FISCAL YEAR ENDED MARCH 31, 1999	SIX MONTHS ENDED SEPTEMBER 30, 1999
	-----	
	(IN THOUSANDS) (UNAUDITED)	
Service fee revenue.....	\$31,510	\$19,081
Cost of service fee revenue.....	18,525	12,107
Service fee gross profit.....	12,985	6,974
Service fee gross profit margin.....	41.2%	36.5%

Based on this presentation, our largest clients for the 1999 fiscal year would have been Daisytek (65.1%), IBM (13.5%) and Emtec (10.3%), and our largest clients for the six months ended September 30, 1999 would have been Daisytek (52.2%), IBM (13.4%) and Emtec (9.4%). In calculating these percentages, we have considered IBM as our client under our new IBM agreements even though the service fees arising under these agreements are paid by Daisytek.

This presentation does not reflect what our operating income or net income would have been during the periods presented.

## RESULTS OF OPERATIONS

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

	FISCAL YEARS ENDED MARCH 31,			SIX MONTHS ENDED SEPTEMBER 30,	
	1997	1998	1999	1998	1999
Product revenue.....	94.1%	92.8%	92.5%	93.7%	88.8%
Service fee revenue.....	5.9	7.2	7.5	6.3	11.2
Total revenues.....	100.0	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue).....	95.3	94.7	94.3	95.0	94.4
Cost of service fee revenue (as % of service fee revenue).....	57.6	62.4	70.5	78.1	69.9
Total costs of revenues.....	93.1	92.4	92.5	93.9	91.6
Gross profit.....	6.9	7.6	7.5	6.1	8.4
Selling, general and administrative expenses.....	6.1	7.5	6.6	5.8	9.4
Income (loss) from operations.....	0.8	0.1	0.9	0.3	(1.0)
Interest expense, net.....	0.5	0.3	0.4	0.3	1.0
Income (loss) before income taxes.....	0.3	(0.2)	0.5	(0.0)	(2.0)
Provision (benefit) for income taxes.....	0.2	0.0	0.2	(0.0)	(0.8)
Net income (loss).....	0.1%	(0.2)%	0.3%	(0.0)%	(1.2)%

## SIX MONTH PERIOD ENDED SEPTEMBER 30, 1999 COMPARED TO SIX MONTH PERIOD ENDED SEPTEMBER 30, 1998

**Product Revenue.** Product revenue was \$55.8 million for the six months ended September 30, 1999 as compared to \$41.3 million for the six months ended September 30, 1998, an increase of \$14.5 million or 35.0%. Product revenue increased as a result of an increase of \$15.3 million under new European IBM distributor agreements and a decrease of \$0.8 million in sales under our North American IBM master distributor agreements. As stated above, during the quarter ended September 30, 1999, we, Daisytek and IBM entered into new agreements applicable to all of our IBM relationships. One of these agreements was effective as of July 15, 1999, and all others are effective as of the end of September 30, 1999. The contract effective as of July 15, 1999, had a negative impact on our product revenue during the six month period ended September 30, 1999, as the activities performed under this contract since that date were accounted for as service fee revenues as opposed to product revenue. As a result of these new IBM contract arrangements, we expect no product revenue in future periods.

**Service Fee Revenue.** Service fee revenue was \$7.0 million during the six months ended September 30, 1999 as compared to \$2.8 million during the six months ended September 30, 1998, an increase of \$4.2 million or 153.7%. The increase in service fee revenue was attributable to an increase in existing contracts of \$1.5 million and the addition of \$2.8 million related to new service contract relationships, including the restructured IBM agreements referred to above, during the six months ended September 30, 1999. The restructuring of all the IBM contracts, combined with our new transaction management services agreement with Daisytek beginning upon completion of this offering, should result in an increase in service fee revenues over prior periods.

**Cost of Product Revenue.** Cost of product revenue was \$52.6 million during the six months ended September 30, 1999 as compared to \$39.2 million during the six months ended September 30, 1998, an increase of \$13.4 million or 34.1%. Cost of product revenue as a percent of product revenue was 94.4% during the six months ended September 30, 1999 and 95.0% during the six months ended September 30, 1998. The resulting product gross profit margin was 5.6% during the six months ended September 30, 1999 and 5.0% during the six months ended September 30, 1998. The increase in product gross profit margin was due to our European IBM business, which had a higher gross profit margin than our domestic IBM business, and differences in our customer and product mix. As a result of the new IBM arrangements, we do not expect to incur any cost of product revenue in future periods.

**Cost of Service Fee Revenue.** Cost of service fee revenue was \$4.9 million for the six months ended September 30, 1999 as compared to \$2.2 million during the six months ended September 30, 1998, an increase of \$2.7 million or 127.3%. The increase in cost of service fee revenue during the six months ended September 30, 1999 was due to increased activity from growth in existing contracts as well as new client relationships. The resulting service fee gross profit margin was 30.1% during the six months ended September 30, 1999 and 21.9% during the six months ended September 30, 1998. The increase in service fee gross profit margin was due to certain initial incremental costs incurred to implement several new contracts during the six months ended September 30, 1998.

**Gross Profit.** Gross profit was \$5.2 million for the six months ended September 30, 1999 or 8.4% of revenues as compared to \$2.7 million or 6.1% of revenues for the six months ended September 30, 1998. The increase in total gross profit margin resulted primarily from the increase in service fee revenue of 153.7%, which typically earn higher gross profit margins, compared to the increase in product revenue of 35.0%. In the Future Financial Presentation data above, we have provided, retroactively, what our service fee gross profit margin would have been considering the impact of the new IBM and Daisytek agreements and our acquisition of the assets and liabilities which Daisytek will transfer to us upon completion of this offering. The gross profit margin for the



six month period ended September 30, 1999, would have been 36.5%. Our service fee gross profit margin in the future is targeted to be between 35-40%.

**Selling, General and Administrative Expenses.** SG&A expenses were \$5.9 million for the six months ended September 30, 1999 or 9.4% of revenues as compared to \$2.6 million or 5.8% of revenues for the six months ended September 30, 1998. SG&A expenses increased primarily as a result of costs incurred to support the higher sales volumes under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses. We anticipate that we will continue to incur incremental costs as we make further SG&A investments in our sales, marketing, and technology areas to support our growth strategies. We also expect to incur incremental SG&A expenses as a result of operating as a stand-alone public company. As a result of these expected incremental costs, and as a result of the restructuring of the IBM agreements and the related reduction in product revenue, SG&A expenses as a percentage of service fee revenue will be higher in future periods.

**Interest Expense, Net.** Interest expense was \$0.7 million for the six months ended September 30, 1999 as compared to \$0.1 million for the six months ended September 30, 1998. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements and for capital expenditures. The weighted average interest rate was 6.3% during the six months ended September 30, 1999 and 7.0% during the six months ended September 30, 1998. As indicated in "Use of Proceeds", we plan to utilize the funds from this offering to repay our intercompany payable balance to Daisytek and therefore eliminate the related interest expense. Remaining cash will be utilized to finance the transfer of certain assets from Daisytek, future capital expenditures, general working capital needs and possible acquisitions. To the extent that we have excess cash available after considering these items, we expect to generate interest income in future periods.

**Income Taxes.** Our income tax benefit as a percentage of pretax loss was 39.4% for the six months ended September 30, 1999 and 36.0% for the six months ended September 30, 1998. This difference resulted primarily from a change in the ratio of pretax loss between our U.S. and foreign subsidiaries which are taxed at different rates.

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

**Product Revenue.** Product revenue was \$93.7 million for fiscal 1999 compared to \$45.8 million for fiscal 1998, an increase of \$47.9 million or 104.6%. Product revenue increased as a result of an increase of \$10.5 million under new European IBM distributor agreements and an increase of \$37.4 million or 81.7% in sales under our North American IBM master distributor agreements.

**Service Fee Revenue.** Service fee revenue was \$7.5 million during fiscal 1999 as compared to \$3.5 million during fiscal 1998, an increase of \$4.0 million or 113.3%. The increase in service fee revenue was attributable to an increase in existing contracts of \$1.3 million or 37.1% and the addition of \$2.7 million related to new service contract relationships.

**Cost of Product Revenue.** Cost of product revenue was \$88.3 million during fiscal 1999 as compared to \$43.4 million during fiscal 1998, an increase of \$44.9 million or 103.6%. Cost of product revenue as a percent of product revenue was 94.3% for fiscal 1999 and 94.7% for fiscal 1998. The resulting product gross profit margin was 5.7% for fiscal 1999 and 5.3% for fiscal 1998. The increase in product gross profit margin was due to our European IBM business, which had a higher gross profit margin than our domestic IBM business due to differences in customer and product mix.

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

large contracts at lower gross profit margins and incremental costs related to implementing several new contracts during fiscal 1999.

**Gross Profit.** Our gross profit was \$7.6 million or 7.5% of revenues for fiscal 1999 as compared to \$3.7 million or 7.6% of revenues for fiscal 1998. In the Future Financial Presentation data above, we have provided, retroactively, what our service fee gross profit margin would have been considering the impact of the new IBM and Daisytek agreements and our acquisition of the assets and liabilities which Daisytek will transfer to us upon completion of this offering. The gross profit margin for the year ended March 31, 1999 would have been 41.2%.

**Selling, General and Administrative Expenses.** SG&A expenses for fiscal 1999 were \$6.7 million or 6.6% of revenues as compared to \$3.7 million or 7.5% of revenues for fiscal 1998. The increase in SG&A expenses for fiscal 1999 was a result of costs incurred to support the growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

**Interest Expense, Net.** Interest expense was \$0.4 million during fiscal 1999 and \$0.1 million during fiscal 1998. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements. The weighted average interest rate was 6.7% during fiscal 1999 and 6.9% during fiscal 1998.

**Income Taxes.** Our income tax expense as a percentage of pretax income was 42.3% for fiscal 1999 as compared to an income tax benefit as a percentage of pretax loss of 28.6% for fiscal 1998. This difference resulted from a change in the ratio of pretax income or loss between our U.S. and foreign subsidiaries which are taxed at different rates, combined with certain nondeductible expenses in fiscal 1998. See also Note 7 to the "Combined Financial Statements" included elsewhere in this prospectus.

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

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

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

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

**Cost of Service Fee Revenue.** Cost of service fee revenue was \$2.2 million for fiscal 1998 as compared to \$0.6 million for fiscal 1997, an increase of \$1.6 million or 270.5%. The increase in cost of service fee revenue during fiscal 1998 was due to growth in client orders processed during the period. The resulting service fee gross profit margin was 37.6% during fiscal 1998 and 42.4% during fiscal 1997. The decrease in service fee gross profit margin was due to the addition of certain large contracts at lower gross profit margins during the last quarter of fiscal 1997, which impacted operating results for all of fiscal 1998.

**Gross Profit.** Our gross profit was \$3.7 million or 7.6% of revenues for fiscal 1998 as compared to \$1.2 million or 6.9% of revenues for fiscal 1997. The increase in our gross profit for fiscal 1998 was primarily the result of increased product revenue. The increase in total gross profit margin

resulted primarily from the increase in service fee revenue of 242.3%, which typically earn higher gross profit margins, compared to the increase in product revenue of 176.9%.

**Selling, General and Administrative Expenses.** SG&A expenses were \$3.7 million for fiscal 1998 or 7.5% of revenues as compared to \$1.1 million or 6.1% of revenues for fiscal 1997. The increase in SG&A expenses for fiscal 1998 was primarily the result of higher sales volumes under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

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

**Income Taxes.** Our income tax benefit as a percentage of pretax loss was 28.6% for fiscal 1998 as compared to income tax expense as a percentage of pretax income of 61.3% for fiscal 1997. This difference resulted from a change in the ratio of pretax income or loss between our U.S. and foreign subsidiaries which are taxed at different rates, combined with certain nondeductible expenses in fiscal 1998. See also Note 7 to the "Combined Financial Statements" included elsewhere in this prospectus.

#### LIQUIDITY AND CAPITAL RESOURCES

As a subsidiary of Daisytek, we have historically funded our business through intercompany borrowings from Daisytek. The net proceeds of this offering will be used to repay our intercompany borrowings from Daisytek. We currently believe that the net available proceeds from this offering and funds generated from operations will satisfy our working capital and capital expenditure requirements for the next twelve months. Because Daisytek will be prohibited from advancing funds to us following the completion of this offering and we will be prohibited from borrowing from Daisytek after the spinoff, we plan to seek our own credit facility.

Working capital decreased to \$1.2 million at September 30, 1999 from \$14.6 million at March 31, 1999, and from \$1.3 million at March 31, 1998. A significant portion of our working capital needs has historically been related to our master distributor agreements with IBM which required us to purchase and resell the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue), and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, during the quarter ended September 30, 1999, we transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek paid to us the net book value of these assets and liabilities (approximately \$20 million). This offering is expected to generate \$35.0 million in net proceeds. A portion of the net proceeds from this offering will be used to repay the intercompany payable balance to Daisytek (\$22.3 million as of September 30, 1999). As a result of these transactions, our historical working capital requirements may not be indicative of our future needs.

Net cash used in financing activities was \$6.7 million for the six months ended September 30, 1999. This usage relates to the reduction in the intercompany payable arising primarily from the transfer of the IBM related working capital assets from us to Daisytek in conjunction with the new IBM agreements, which was partially offset by capital expenditures and incremental financing of one of our client's inventory. Net cash provided by financing activities was \$9.2 million for the six months ended September 30, 1998. Net cash provided by financing activities was \$27.7 million for

fiscal 1999 and \$5.2 million for fiscal 1997. Net cash used in financing activities was \$4.0 million in fiscal 1998, representing a repayment to Daisytek. Additionally, during fiscal 1999, Daisytek made a capital contribution of \$0.5 million to its PFSweb Canadian subsidiary.

Cash flows provided by operating activities totaled \$14.0 million during the six months ended September 30, 1999. Cash flows used in operating activities totaled \$5.5 million during the six months ended September 30, 1998. For the six months ended September 30, 1999, the net cash provided by operating activities primarily reflected a reduction in accounts payable and accrued expenses of \$31.5 million, accounts receivable of \$16.0 million and inventory of \$29.9 million. These reductions primarily related to the transfer of the IBM related working capital assets from us to Daisytek in conjunction with the new IBM agreements. For the six months ended September 30, 1998, the net cash used in operating activities was primarily due to an increase in inventory of \$9.9 million and accounts receivable of \$6.4 million, which were partially offset by a reduction in accounts payable and accrued expenses of \$10.7 million.

Net cash used in operating activities was \$12.3 million for fiscal 1999 and \$5.2 million for fiscal 1997. Net cash provided by operating activities was \$4.5 million for fiscal 1998. Working capital requirements increased in fiscal 1999 compared to fiscal 1998 primarily due to product revenue growth under our North American IBM master distributor agreements. We also entered into new master distributor agreements in December 1998 to provide services for IBM in Europe. Our North American revenue growth, as well as the new European contracts, resulted in significant increases in IBM contract related accounts receivable, inventory and accounts payable.

Our principal use of funds for investing activities was capital expenditures of \$6.2 million for the first six months of fiscal 2000 as compared to \$0.5 million for the first six months of fiscal 1999. Capital expenditures were \$2.7 million for fiscal 1999, \$0.3 million for fiscal 1998 and \$0.1 million for fiscal 1997. In addition, we have entered into a long-term contractual agreement with one of our clients pursuant to which, as part of the services that we provide, we finance certain of the client's inventory. This amount was \$12.4 million at September 30, 1999 and \$12.1 million at March 31, 1999 (see Note 2 of Notes to Combined Financial Statements). Capital expenditures have consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of our facilities, both domestic and foreign. We expect to incur significant capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for fiscal 2000 will be approximately \$13.0 to \$15.0 million. This amount includes the transfer to us of certain assets from Daisytek for approximately \$5.7 million (\$5.4 million in cash and the assumption of \$0.3 million of capital lease obligations) plus the assumption of certain lease obligations. The increase in anticipated capital expenditures over fiscal 1999 relates primarily to our asset purchase from Daisytek and capital expenditures applicable to our new Belgium distribution facility, combined with expansion of our U.S. and Canadian sales and distribution facilities. Some of these expenditures may be financed through operating or capital leases.

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

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

PFSweb, along with several other Daisytek subsidiaries, has guaranteed one of Daisytek's unsecured revolving line of credit in the maximum principal amount of \$105 million (\$55 million outstanding as of September 30, 1999). This guaranty will be released upon completion of this offering and the repayment of our intercompany payable to Daisytek.

#### YEAR 2000 ISSUE

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

In fiscal 1997, Daisytek began to address Y2K. Daisytek has formed a Y2K task force under its Chief Information Officer to coordinate and implement measures designed to prevent disruption in its business operations, including PFSweb, related to Y2K. Daisytek and PFSweb have successfully completed the remediation of their mission-critical IT applications software and are scheduled to complete remediation of their non-mission critical applications software during November 1999. Daisytek and PFSweb are assessing the effect of Y2K on their non-IT systems and intend to modify or replace non-IT systems as necessary to insure Y2K readiness during November 1999. We believe that we have completed approximately 95% of the initiatives that we believe are necessary to fully address potential Y2K issues relating to our systems and operations. The projects comprising the remaining 5% of the initiatives are in process and expected to be completed by December 15, 1999. We believe that other IT projects not related to the Y2K issue have not been delayed or negatively affected by the initiatives addressing the Y2K issue. The following table represents our schedule and status of our Y2K initiatives based upon our current estimates and information provided to us by third parties:

YEAR 2000 INITIATIVE	TIME FRAME	% COMPLETE
Initial IT systems identification and assessment.....	4/97 - 6/97	100%
Remediation and testing regarding core distribution systems.....	7/97 - 11/98	100%
Remediation and testing regarding purchased software systems.....	7/97 - 10/99	100%
Upgrades to telecommunications systems.....	9/97 - 4/99	100%
Desktop systems identification and remediation.....	7/97 - 11/99	95%
Remediation and testing for automated warehouse equipment systems.....	7/99 - 12/99	80%
Service provider assessment.....	1/99 - 8/99	100%

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

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

We utilize a significant amount of automation technology in our distribution centers. This year, we undertook an upgrade project to strengthen the reliability of certain components of the automation network in our Memphis distribution facility. We expect this upgrade to be completed by December 15, 1999. This project will also make this network Y2K compliant. All of our other distribution automation has been certified as Y2K compliant by our service providers.

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

The expenses incurred by Daisytek and its subsidiaries (including PFSweb) related to Y2K was approximately \$0.5 million during fiscal year 1999 and \$0.2 million during the six months ended September 30, 1999. In total, Daisytek's assessment and remediation of Y2K has a budget of approximately \$0.8 million, which includes both external costs, such as outside consultants, software and hardware applications, as well as internal costs, primarily payroll related, which are not reported separately.

Under the most reasonably likely worst case scenario, we do not anticipate more than isolated, temporary disruptions of our operations caused by Y2K failures affecting either our operations or those of our major clients. We expect that our technically trained personnel, working in cooperation with major clients and key service providers, should be able to address Y2K system issues that may arise. To the extent that our systems or those of our key providers are unable to provide services due to Y2K issues, we believe that we may have to use one or more of our contingency plans that would, in the short-term, involve numerous operational inconveniences and inefficiencies that would increase costs and divert management's time and attention from its ordinary business activities. Many risks, however, such as the failure to perform by public utilities, telecommunications providers, and financial institutions, and the impact of the Y2K issue on the economy as a whole, are outside our control and could adversely affect the company and our ability to conduct business. While we believe that we have made a significant effort to address all anticipated risks within our control, this is an event without precedent; consequently, there can be no assurance that the Y2K issue will not have a material adverse impact on our financial condition, operating results, or business.

There can be no assurance that Y2K remediation by PFSweb, in conjunction with Daisytek, or third parties will be properly and timely completed and failure to do so could have a material adverse effect on PFSweb's financial condition. We cannot predict the actual effects of Y2K, which depend on numerous uncertainties, such as whether major third parties address this issue properly and timely and whether broad-based or systemic economic failures may occur. We are currently unaware of any events, trends, or conditions regarding this issue that may have a material effect on our results of operations, liquidity, and financial position. If Y2K is not resolved by January 1, 2000, our results of operations or financial condition could be materially adversely affected.

## INVENTORY MANAGEMENT

Prior to September 30, 1999, our agreements with IBM were structured as master distributor agreements. The transaction management services we provided for IBM under these agreements included purchasing and reselling IBM product inventory to IBM customers. During the quarter ended September 30, 1999, we have restructured our agreements with IBM so that we will no longer be purchasing or reselling the IBM product inventory. In addition, we have transferred to Daisytek the IBM-related customer accounts receivables, inventory and accounts payable.

## SEASONALITY

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

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

## INFLATION

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

## IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are subject to market risk associated with changes in interest rates and foreign currency exchange rates. Interest rate exposure is primarily related to our payable to Daisytek, which amounted to \$22.3 million at September 30, 1999. Our effective rate is equal to Daisytek's effective rate on its revolving lines of credit. The interest rates on these revolving lines of credit float with the market. A 50 basis point movement in interest rates would result in an approximately \$111,500 annualized increase or decrease in interest expense based on the outstanding balance of our payable to Daisytek at September 30, 1999. A portion of the net proceeds from this offering will be used to repay our payable due to Daisytek. Following our spin-off from Daisytek, we may manage the exposure to interest rate risk through the use of derivative instruments designed to manage risk and minimize interest expense.

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

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



## BUSINESS

PFSweb is an international provider of transaction management services to both traditional and e-commerce companies. Our integrated set of transaction management services enables our clients to focus on their core business, products and services instead of making substantial investments in necessary transaction management systems, facilities and personnel. We offer a broad range of services such as:

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

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

## INDUSTRY OVERVIEW

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

## E-COMMERCE TREND

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

To achieve the full potential of Internet commerce, Forrester Research indicates, collaboration between businesses and government agencies will be essential. They estimate that global Internet commerce sales, including business to consumer, consumer to consumer, business to business, and business to government, will reach \$3.2 trillion in 2003 if this collaboration occurs and only \$1.8 trillion if business and (globally) governments cannot work together. Forrester Research predicts that in the United States alone, electronic commerce (consumer and business-to-business), will grow from \$51 billion in 1998 to near \$1.4 trillion in 2003.

For the manufacturer, e-commerce creates multiple opportunities. The first is the opportunity to sell directly to the end-user customer, bypassing the traditional model of selling to wholesalers and distributors who then resell to mass merchants and other retailers. By selling directly to the end-user customer, the manufacturer can retain a portion of its product revenue which otherwise

would have been paid to middlemen in the traditional distribution channel. Direct sales can also provide the manufacturer with valuable end-user customer information, including buying patterns, feature and function preferences and customer support requirements. This information can be used by the manufacturer to design better products, tailor production schedules to meet projected demand and improve overall customer satisfaction. Another opportunity is to use e-commerce to facilitate business-to-business transactions and improve operating efficiencies. Business-to-business e-commerce has the potential to significantly reduce time consuming paperwork and manual procedures, which can eliminate errors and reduce investments in working capital.

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

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

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

- accept and process customer orders 24 hours a day, seven days a week;
- develop an operating and technology infrastructure that can be expanded as volumes increase;
- administer, on a secure basis, credit card payments and collections;
- calculate applicable sales tax for numerous taxing authorities and various product types;
- quickly and courteously respond to customer inquiries by e-mail, phone or fax;
- pick, pack and ship customer orders promptly and accurately; and
- process product returns and customer refunds.

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

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

Refer to Note 9 of the Combined Financial Statements for revenues and long-lived assets of PFSweb by geographic area.

#### OUTSOURCING TREND

In response to growing competitive pressures and technological innovations, we believe many companies, both large and small, are focusing their critical resources on the core competencies of their business and utilizing third parties to perform non-core business functions. For example, many large companies are turning to third parties to rationalize their cost structure and to deploy under-

utilized assets for new business opportunities while many small companies are utilizing third party outsourcing to accelerate their business plans in a cost-effective manner. Outsourcing provides many key benefits, including the ability to:

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

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

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

#### THE PFSWEB SOLUTION

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

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

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

**Minimize Investment and Improve Operating Efficiencies.** We provide our clients with access to a wide array of services that cover a broad spectrum of e-commerce transaction management issues, eliminating their need to expend management time and resources to coordinate these services from different providers. By utilizing our services, our clients can capitalize on our economies of scale and expertise to grow their e-commerce business without incurring the substantial fixed costs

necessary to create and maintain their own transaction management infrastructure. Our clients also have the flexibility to purchase any or all of our offered services according to their transaction volume and existing transaction management infrastructure so that they do not have to invest scarce capital resources as their business grows.

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

#### THE PFSWEB STRATEGY

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

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

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

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

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

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

#### PFSWEB SERVICES

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

Order Management. Our order management services include handling the complete shopping cart check-out process for Internet orders as well as phone, fax, e-mail, mail and other order

receipt methods. Our systems provide the ability for both our clients and their customers to track the status of orders at any time. Our services are transparent to our clients' customers and are seamlessly integrated with our clients' internal systems and Web sites. By synchronizing our order management technology with our clients' internal systems and Web sites, we can capture and provide critical customer information, including:

- statistical measurements critical to creating a quality customer experience, including real-time order status, order exceptions, back order tracking, the ratio of customer inquiries to purchases, average order sizes and order response time;
- detailed marketing information about what was sold and to whom it was sold, including by location and preference; and
- Web traffic reporting of the number of visits ("hits") received, what areas of the Web site were visited, and what customers asked for on the Web site.

**Customer Care Services.** We believe that an important feature of e-commerce is the ability of the customer to talk to a live customer service representative. Our experience is that about 81 percent of consumers tell us that they visited the Web location for information, but only 22 percent of those consumers chose to order in that manner. Our customer care services utilize features that integrate voice, e-mail, data and Internet chat communications to respond to and handle customer inquiries. We currently answer over 10,000 customer calls per day with 95% answered in under 30 seconds, with an average speed of answer of 12 seconds and less than 1% of calls abandoned. Our customer care representatives answer questions in our clients' name regarding orders, shipping, billing, returns and product information as well as a variety of other questions. Our customer care center automatically identifies each customer request and routes it to the available customer care representative who is specially trained in the client's business and products. Our customer care centers are designed so that our customer care representatives can handle many different clients and products, thereby creating economy of scale benefits for our clients. Our advanced technology also enables our representatives to inform customers of other products and sales opportunities for our clients.

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

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

**Distribution Services.** An integral part of our transaction management services is the warehousing and distribution of inventory owned by our clients. We currently have over one million square feet of warehouse space to store and process our clients' inventory. We receive client inventory in our distribution center, verify shipment accuracy, unpack, inspect for damage

and generally stock for sale the same day. On behalf of our clients, we pick, pack and ship their customer orders and can provide customized packaging, inserts and promotional literature for distribution with customer orders. Based upon our clients' needs, we are able to take advantage of a variety of shipping and delivery options, including next day service. Our extensive use of advanced technology and equipment in our distribution centers enable us to generally maintain an order accuracy rate of nearly 100% and, similarly, ship nearly 100% of in-stock orders the same day. In addition, an increasingly important function that we provide for our clients is product return administration. We offer a wide array of product return services for our clients, including issuing return authorizations, receipt of product, crediting credit card accounts, and disposition of returned product.

During the fiscal quarter ended March 31, 1999, we warehoused, managed and fulfilled over \$450 million (on an annualized basis) in client merchandise and transactions. This does not represent our revenue, but rather the revenue of our clients for whom we performed transaction management services. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### CLIENTS AND MARKETING

Our target clients include traditional manufacturers of brand name products looking to quickly and efficiently implement e-commerce initiatives or introduce new products or programs, without the burden of modifying or expanding their order processing and distribution infrastructure. We also target retailers seeking to open Web sites to expand their sales without opening new brick and mortar stores and distributors seeking to reduce costs. Our services are available for a variety of industries, including:

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

During the six month period ended September 30, 1999, we also provided services for Encad, Inc., Apple Computer (Apple Supplies Express) and Exabyte Corporation (although this represented collectively approximately 1% of our total revenue for such period).

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

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

All of our product revenue for fiscal 1999 was generated by sales of product purchased under master distributor agreements with IBM. On an historical basis, Daisytek accounted for 13% of our

total product revenues in fiscal 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Future Financial Performance."

#### TECHNOLOGY

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

We employ technology from a selected group of partners. For example, we use IBM AS/400 and Netfinity servers to run both Web site functions as well as order management and distribution functions, and we use Lucent Technologies for telephone switch and call center management functions. We also use Lucent Technologies for our Web enabled customer care center to interact with customers with voice, e-mail or chat and to communicate with the customer by sharing Web pages between the customer and our customer service representative. The ability to process voice, data and video synchronously on the same line is becoming very effective. We have just begun to implement these technologies in our call centers. We have seen our clients interested in using this technology to allow shoppers the ability to consult with known experts prior to purchasing. Our sophisticated computer-telephony integration has been accomplished by combining systems software from IBM and Lucent Technologies together with our own application development. We use AT&T for our private enterprise network and long distance carrier. We use J.D. Edwards as the software provider for the primary applications that we use in our operational areas and financial areas. We use Rapistan/Demag for our warehouse management, automated conveyor and "pick-to-light" (inventory retrieval) systems and Telxor for our warehouse radio frequency (RF) applications.

We have developed proprietary technology that is specifically targeted at quickly integrating and synchronizing our systems with those of our clients with a high degree of accuracy and reliability. We can track information sent to us by the client as it moves through our systems in the same manner a package would be tracked by a carrier throughout the delivery process. Our systems enable us to trace at a detailed level what information was received, when it was received, any errors or special handling that had to take place to process it and what was sent back to the client. We have also developed proprietary electronic interfaces that we provide to the client or their selected Web developer to easily integrate their Web site with our systems. These tools allow for efficient customized integration with our client and powerful real-time Web site transaction processing. The implementation of these systems allows us to offer an advanced suite of electronic commerce tools to our clients so that we can communicate with their computer systems and automatically process, send and receive orders, customer data and other information. We have not applied for copyright or patent protection for our proprietary technology, although we may do so in the future.

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

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

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

#### COMPETITION

Many companies offer, on an individual basis, one or more of the same services we do, and we face competition from many different sources depending upon the type and range of services requested by a potential client. Our competitors include vertical outsourcers, which are companies that offer a single function, such as call centers, public warehouses or credit card processors, and many of these companies have greater capabilities than we do for the function they provide. We also compete against transportation logistics providers who offer product management functions as an ancillary service to their primary transportation services. In many instances, our competition is the in-house operations of our potential clients themselves. The in-house operations departments of potential clients often believe that they can perform the same services we do, while others are reluctant to outsource business functions which involve direct customer contact. We cannot be certain that we will be able to compete successfully against these or other competitors in the future.

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

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

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

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

#### FACILITIES

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

Our receiving and material handling system in our Memphis distribution complex includes several advanced technology enhancements, including radio frequency technology in product



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

We recently opened a new 150,000 square foot distribution center in Liege, Belgium, which has many of the same advanced distribution systems and equipment as in our Memphis complex.

In order to provide operations in international locations, our transitional agreement with Daisytek will provide for our use of its regional customer service, warehouse and distribution facilities in Toronto and Vancouver, Canada; Mexico City, Mexico; Sydney, Australia; Singapore; and Miami, Florida, to service the Latin American market. We presently plan to establish our own customer service and warehouse and distribution facility in Toronto.

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

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

#### PERSONNEL AND TRAINING

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

As of October 15, 1999, we had 411 employees. We currently anticipate that, upon completion of this offering, approximately 262 Daisytek employees will be transferred to us. We are not a party to any collective bargaining agreements, and we have never suffered an interruption of business as a result of a labor dispute. We consider our relationship with our employees to be good.

#### REGULATION

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

## MANAGEMENT

## EXECUTIVE OFFICERS AND DIRECTORS

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

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

Mark C. Layton, has served as Chairman of the Board, President and Chief Executive Officer of PFSweb since its inception. Mr. Layton also serves as President, Chief Executive Officer and Chief Operating Officer of Daisytek, positions he has held since 1997, and as a Director, a position he has held since 1988. Mr. Layton was recently appointed as Chairman of the Board of Daisytek. Mr. Layton served as President, Chief Operating Officer and Chief Financial Officer of Daisytek from 1993 to April 1997, as Executive Vice President from 1990 to 1993 and as Vice President -- Operations from 1988 to 1990. Prior to joining Daisytek, Mr. Layton served as a management consultant with Arthur Andersen & Co., S.C. for six years through 1988 specializing in wholesale and retail distribution and technology. Mr. Layton also serves as a Director of ISA International plc ("ISA"), a distributor of computer supplies in Western Europe, and uBid, Inc., an Internet auction company.

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

Steven S. Graham has served as Executive Vice President and Chief Information Officer of PFSweb since its inception. Mr. Graham also serves as Senior Vice President of Information Technologies and Chief Information Officer of Daisytek, a position he has held since 1996. Prior to joining Daisytek, Mr. Graham was employed by Ingram Micro, a major microcomputer distributor. Mr. Graham has over 26 years of experience in the information-technology field.

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

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

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

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

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

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

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

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

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

James F. Reilly has served as a Director of PFSweb since its inception. Mr. Reilly also serves as a Director of Daisytek, a position he has held since October 1998. Mr. Reilly is a Managing Director of Hambrecht & Quist LLC. Mr. Reilly was previously a Managing Director in the Technology Group of Warburg Dillon Read, the global investment banking division of UBS AG. Mr. Reilly was associated with Warburg Dillon Read or one of its predecessor companies from 1983 to 1999 and specialized in corporate finance advisory work for a broad range of technology companies, including distribution companies. Mr. Reilly is a non-employee Director.

Each officer serves at the discretion of the board of directors. There are no family relationships among any of our directors and executive officers.

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

#### BOARD STRUCTURE AND COMMITTEES

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

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

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

#### NON-EMPLOYEE DIRECTOR COMPENSATION; STOCK OPTION AND RETAINER PLAN

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

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

All options issued under the Plan are non-qualified options for federal income tax purposes and have an exercise price equal to the fair market value of a share of common stock as of the date of grant. All options have a ten year term and are subject to a one year vesting schedule, except that any options issued prior to the effective date of the spin-off, including the initial option grant, have no vesting for three years, subject to acceleration, in part, upon completion of the spin-off.

Generally, unless the Plan administrator otherwise provides, options are non-transferable other than by will or the laws of descent and distribution. At the time of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate structure or capitalization affecting our common stock, the Plan administrator will make appropriate adjustments to the exercise price, number and kind of shares to be issued under the Plan and any outstanding options. Unless terminated earlier, the Plan will terminate ten years from its adoption, and no stock options will be granted after the Plan terminates. Our board of directors has the authority to amend, modify, suspend or terminate the Plan at any time.

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

#### STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

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

The following table sets forth the number of shares of Daisytek common stock beneficially owned on October 15, 1999 by each director and executive officer and all directors and executive officers of PFSweb as a group. Applicable percentage ownership is based on 17,173,452 shares of Daisytek common stock outstanding on October 15, 1999.

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

NAME -----	NUMBER OF SHARES OF DAISYTEK -----	PERCENT OF OUTSTANDING DAISYTEK SHARES -----
Mark C. Layton(1).....	333,038	1.9%
Christopher Yates(2).....	89,951	*
Steven S. Graham(3).....	38,445	*
Thomas J. Madden(4).....	88,154	*
C. Clifford Defee(5).....	6,121	*
James R. Powell(6).....	37,620	*
Timothy M. Murray(7).....	83,401	*
Peter P.J. Vikanis(8).....	9,722	*
James F. Reilly.....	7,111	*
Martin L. Anderson(9).....	17,130	*
Lindsley D. Medlin Jr.(10).....	36,700	*
Scott R. Talley(11).....	9,163	*
Harvey H. Achatz(12).....	64,427	*
	-----	-----
All directors and executive officers as a group (13 persons)(13).....	820,983	4.7%

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\* Represents less than 1%

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

## EXECUTIVE COMPENSATION

The following table sets forth certain compensation information for the chief executive officer and the four other executive officers of PFSweb who, based on salary and bonus compensation from Daisytek and its subsidiaries, were the most highly compensated officers of PFSweb for fiscal year 1999. All information set forth in this table reflects compensation earned by such individuals for services with Daisytek and its subsidiaries for fiscal 1999. These individuals and Daisytek have entered into severance agreements with respect to their employment by Daisytek. Under these agreements, upon a change in control of Daisytek, the vesting schedule for all Daisytek stock options then held by such individuals will be accelerated. In addition, upon termination of employment (other than for cause) these individuals will be entitled to a severance payment equal to twice their then total compensation.

## SUMMARY COMPENSATION TABLE

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

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

## GRANT OF DAISYTEK STOCK OPTIONS IN FISCAL 1999

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

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

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

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

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

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

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

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



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

#### PFSWEB STOCK OPTION AND INCENTIVE PLANS

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

##### Employee Stock Option Plan

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

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

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

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

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

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

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

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

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

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

#### Substitute Stock Options

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

The "Ratio" means the amount determined by dividing:

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

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

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

#### Annual Incentive Plan

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

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

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

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

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

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION.

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

#### CERTAIN TRANSACTIONS

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

All of our agreements with Daisytek were made in the context of a parent-subsidary relationship and were negotiated in the overall context of our spin-off from Daisytek. Although we

generally believe that the terms of these agreements are consistent with fair market values, we cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

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

#### MASTER SEPARATION AGREEMENT

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

**Transfer of Assets and Liabilities.** Upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek \$5.4 million in cash and assume \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets. We will also repay to Daisytek, from the net proceeds of this offering, the then outstanding balance of our payable to Daisytek (\$22.3 million at September 30, 1999). Daisytek is not making any representation or warranty with respect to any asset being transferred to us.

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

#### INITIAL PUBLIC OFFERING AND DISTRIBUTION AGREEMENT

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

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

- Receipt by Daisytek of a ruling by the Internal Revenue Service that, among certain other tax consequences of the transaction, the spin-off will qualify as a tax-free distribution for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek or its shareholders. Daisytek presently intends to submit its ruling request to the IRS prior to the completion of this offering, and it generally takes four to six months to receive a ruling from the IRS. Whether a favorable ruling will be issued depends on a number of determinations that are based on the particular facts and circumstances of Daisytek and our company. Although we believe that these determinations will be made favorably to Daisytek, there is no guarantee that Daisytek will receive a favorable ruling. If within one year following completion of this offering, Daisytek has not

received a favorable ruling, Daisytek may, in its sole and absolute discretion, determine to proceed instead on the basis of an opinion from its professional advisor, in form and substance reasonably satisfactory to it, as to the qualification of the transaction for tax-free treatment.

- Obtaining any material consents necessary to consummate the spin-off which shall be in full force and effect.
- No court orders, injunctions, decrees, regulations or other legal restraint prohibiting or restricting the completion of the spin-off shall exist.
- No events or developments shall have occurred subsequent to the closing of this offering that, in the sole judgement of Daisytek, would result in the spin-off having a materially adverse effect on Daisytek, PFSweb, or their shareholders.

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

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

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

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

Section 355 of the Code) of our company as we conducted it immediately prior to the completion of the spin-off. During such time, we have agreed not to:

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

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

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

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

**Indemnification for Tax Liabilities.** We have generally agreed to indemnify Daisytek and its affiliates against any and all tax-related losses incurred by Daisytek in connection with any proposed

tax assessment or tax controversy with respect to the spin-off or the Contribution to the extent caused by any breach by us of any of our representations, warranties or covenants. If we cause the spin-off to not qualify as a tax-free distribution, Daisytek would incur federal income tax (which currently would be imposed at a 35% rate), and possibly state income taxes on the gain inherent in the shares distributed, which would be based upon the market value of the shares of PFSweb at the time of the spin-off. This indemnification does not apply to actions that Daisytek permits us to take as a result of a determination under the tax-related covenants as described above. Similarly, Daisytek has agreed to indemnify us and our affiliates against any and all tax-related losses incurred by us in connection with any proposed tax assessment or tax controversy with respect to the spin-off or the Contribution to the extent caused by any breach by Daisytek of any of its representations, warranties or covenants.

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

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

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

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

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

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

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

#### REGISTRATION RIGHTS AGREEMENT

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

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

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

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

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

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

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



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

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

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

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

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

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

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

#### TAX MATTERS

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

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

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

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

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

Under the tax indemnification and allocation agreement, Daisytek has agreed to indemnify us against any taxes resulting from the failure of the spin-off to qualify for tax-free treatment, except that we will be liable for, and will indemnify Daisytek against, any taxes resulting from the failure of the spin-off to qualify for tax-free treatment if it is the result of our engaging in a "Prohibited Action" or the occurrence of a "Disqualifying Event." Any tax liability arising from the spinoff would only arise after the spinoff occurred and neither we nor Daisytek have the option to rescind the spinoff if tax liability results.

A "Prohibited Action" is defined as:

- if we take any action which is inconsistent with the tax treatment of the spin-off as contemplated in the IRS Ruling or the Tax Option; or
- if, prior to the spin-off, we issue shares of stock or take any other action that would result in our not being controlled by Daisytek within the meaning of Section 368(c) of the Code.

A "Disqualifying Event" includes any event involving the direct or indirect acquisition of the shares of our capital stock after the spin-off which has the effect of disqualifying the spin-off from tax-free treatment, whether or not the event is the result of our direct action or within our control.

#### TRANSACTION MANAGEMENT SERVICES AGREEMENT

We will enter into a transaction management services agreement with Daisytek which will set forth the transaction management services that we will provide for Daisytek in connection with its

U.S. wholesale consumable supplies business. Under this agreement, we will provide a wide range of transaction management services, including order fulfillment and distribution, product warehousing, inbound call center services, product return administration and other services.

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

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

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

#### TRANSITION SERVICES AGREEMENT

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

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

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

## PRINCIPAL STOCKHOLDER

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

At this time, it is not possible to predict who our 5% or more beneficial owners will be at the time of our spinoff from Daisytek (which is anticipated to be in mid-2000) since that will depend upon:

- who owns 5% or more of our stock at that time;
- who owns 5% or more of the Daisytek stock at that time; and
- the number of outstanding shares of each company at the time (which will be used to determine the distribution ratio for purposes of issuing PFSweb shares to Daisytek stockholders as of the record date for the distribution).

Nevertheless, assuming the spin-off occurred concurrently with completion of this offering, and based upon the information known to Daisytek regarding persons who beneficially own 5% or more of its common stock, the following table sets forth those persons who would own 5% or more of the PFSweb common stock as a result of the spinoff.

NAME AND ADDRESS OF BENEFICIAL OWNER(1)	NUMBER OF SHARES(2)	PERCENT(2)
-----	-----	-----
David A. Heap(3)..... 500 North Central Expressway Plano, Texas 75074	1,881,807	10.8
Robert Fleming Inc.(4)..... 320 Park Avenue, 11th and 12th Floors New York, New York 11002	1,102,648	6.3

(1) Beneficial ownership as defined in Rule 13d-3 of the Securities Exchange Act of 1934.

(2) Based upon 17,405,000 shares of PFSweb common stock outstanding and 17,173,452 shares of Daisytek common stock outstanding.

(3) Includes outstanding options to purchase 126,152 shares of Daisytek's Common Stock, which are fully vested and exercisable, but does not include 1,499 shares held by Mr. Heap's spouse as custodian for minor children as to which beneficial ownership is disclaimed, or options to purchase shares of Daisytek's Common Stock which are not vested or exercisable.

(4) Based upon a Schedule 13G/A dated February 10, 1999 filed by Robert Fleming Inc. reporting beneficial ownership and shared voting and dispositive power as of December 31, 1998.

## DESCRIPTION OF CAPITAL STOCK

Under our Amended and Restated Certificate of Incorporation, our authorized capital stock consists of 41,000,000 shares, of which 40,000,000 shares are common stock, \$0.001 par value per share, and 1,000,000 shares are preferred stock, par value \$1.00 per share. Immediately following this offering, 17,405,000 shares of common stock, or 17,870,000 shares if the underwriters exercise their over-allotment option in full, will be outstanding. The following description of our capital stock is not complete and is qualified in its entirety by our Amended and Restated Certificate of Incorporation and Bylaws, both of which are included as exhibits to the registration statement of which this prospectus forms a part.

## COMMON STOCK

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

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

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

## PREFERRED STOCK

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

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

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

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

#### LIMITATION ON LIABILITY OF DIRECTORS

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

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

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

#### SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

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

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

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

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

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

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

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

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

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

Our Amended and Restated Certificate of Incorporation and Bylaws contain provisions governing various methods and procedures to be followed in connection with stockholder actions. These provisions include a requirement that advance notice be delivered to PFSweb of any business to be brought by a stockholder before an annual or special meeting of stockholders and for certain procedures to be followed by stockholders in nominating persons for election to the PFSweb Board. Generally, only such business may be conducted at a special meeting of stockholders as is set forth in the notice for such meeting.

Our Amended and Restated Certificate of Incorporation provides that, except as may be provided in connection with the issuance of any series of preferred stock, the number of directors shall be fixed from time to time pursuant to a resolution adopted by our Board of Directors. Our Amended and Restated Certificate of Incorporation provides for a classified Board of Directors, consisting of three classes as nearly equal in size as practicable. Each class holds office until the third annual stockholders' meeting for election of directors following the most recent election of such class, except that the initial terms of the three classes expire in 2000, 2001 and 2002, respectively.

#### LISTING

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

#### TRANSFER AGENT AND REGISTRAR

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

#### SHARES ELIGIBLE FOR FUTURE SALE

#### GENERAL

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

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

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

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

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

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

Sales of substantial amounts of our common stock in the open market, or the availability of such shares for sale, could adversely affect the price of our common stock. Daisytek has announced that it plans to complete its spin-off of PFSweb by distributing all of the shares of PFSweb common



stock that it owns to the holders of Daisytek's common stock. Any shares distributed by Daisytek will be eligible for immediate resale in the public market without restrictions by persons other than Affiliates of PFSweb. Affiliates of PFSweb would be subject to the restrictions of Rule 144 described above other than the one-year holding period requirement.

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

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

#### REGISTRATION RIGHTS OF DAISYTEK

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

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

#### UNDERWRITING

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

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

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

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

underwriter defaults in its commitment to purchase shares, the commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated, depending on the circumstances. We have agreed to indemnify the underwriters against certain civil liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of such liabilities.

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

The underwriters have informed PFSweb that the underwriters will not allow discretionary account sales of the shares of common stock offered by this prospectus.

PFSweb has granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of 465,000 additional shares from PFSweb to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to public will be \$46.3 million and the net proceeds to PFSweb will be approximately \$40.6 million. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the above table.

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

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

PFSweb estimates that the total expenses of the offering, excluding the underwriting discount, will be approximately \$2.5 million.

We and Daisytek have, jointly and severally, agreed to indemnify each underwriter against all liabilities to which they may become subject under the federal securities laws or other law (including reimbursement of expenses) arising out of:

- any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus) or the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements not misleading, except that there is no indemnification for specific information furnished by the underwriters; and
- the directed share program under which the underwriters have reserved for sale up to 217,000 shares for officers, directors, employees and associates of Daisytek and PFSweb.

This includes contribution to any payments which may be made by the underwriters in the event that indemnification is not available.

PFSweb, its executive officers and directors, and Daisytek have agreed to a 180-day lock up with respect to 14,305,000 shares of common stock that they beneficially own, including securities

that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares of common stock. This means that, subject to certain exceptions, for a period of 180 days following the date of this prospectus, PFSweb, Daisytek and such persons may not offer, sell, pledge or otherwise dispose of PFSweb securities without the prior written consent of Hambrecht & Quist.

The underwriters have reserved for sale up to 217,000 shares for employees, directors and certain other persons associated with PFSweb. These reserved shares will be sold at the public offering price that appears on the cover of this prospectus. The number of shares available for sale to the general public in the offering will be reduced to the extent reserved shares are purchased by these persons. The underwriters will offer to the general public, on the same terms as other shares offered by this prospectus, any reserved shares that are not purchased by these persons.

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

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

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

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

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

One or more members of the underwriting selling group, may make copies of the preliminary prospectus available over the Internet to certain customers through its or their Web sites. The representatives expect to allocate a limited number of shares to such member or members of the selling group for sale to brokerage account holders.

James F. Reilly, a director of PFSweb, is a Managing Director, of Hambrecht & Quist LLC.

## LEGAL MATTERS

The validity of the common stock offered hereby will be passed upon for PFSweb by Wolff & Samson P.A., Roseland, New Jersey. An attorney of such firm is the holder of an option to purchase 35,000 shares of common stock of PFSweb. Legal matters in connection with this offering will be passed upon for the underwriters by Gibson, Dunn & Crutcher LLP, New York, New York.

## EXPERTS

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

## WHERE YOU CAN FIND MORE INFORMATION

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

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

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daisytek International Corporation and PFSweb, Inc.:

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

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

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

ARTHUR ANDERSEN LLP

Dallas, Texas,  
September 22, 1999 (except with respect to the  
matters discussed in Note 10, as to which the  
date is October 29, 1999)

PFSWEB  
 COMBINED BALANCE SHEETS  
 (IN THOUSANDS)

ASSETS

	MARCH 31,	
	1998	1999
	-----	-----
<b>CURRENT ASSETS:</b>		
Cash.....	\$ 113	\$ 587
Accounts receivable, net of allowance for doubtful accounts of \$318 and \$635 at March 31, 1998 and 1999, respectively.....	8,946	22,190
Inventories, net.....	11,263	29,856
Prepaid expenses and other current assets.....	--	997
Deferred tax asset.....	261	453
	-----	-----
<b>Total current assets.....</b>	<b>20,583</b>	<b>54,083</b>
	-----	-----
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Furniture, fixtures and equipment.....	393	3,009
Leasehold improvements.....	2	32
	-----	-----
	395	3,041
Less -- Accumulated depreciation and amortization.....	(67)	(330)
	-----	-----
<b>Net property and equipment.....</b>	<b>328</b>	<b>2,711</b>
<b>OTHER ASSETS.....</b>	<b>--</b>	<b>12,263</b>
	-----	-----
<b>Total assets.....</b>	<b>\$20,911</b>	<b>\$69,057</b>
	=====	=====
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade accounts payable.....	\$18,725	\$38,329
Accrued expenses.....	514	1,118
	-----	-----
<b>Total current liabilities.....</b>	<b>19,239</b>	<b>39,447</b>
	-----	-----
<b>PAYABLE TO DAISYTEK.....</b>	<b>1,827</b>	<b>29,029</b>
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES (Notes 4, 8 and 10)</b>		
<b>SHAREHOLDER'S EQUITY:</b>		
Daisytek's net equity investment.....	(100)	712
Accumulated other comprehensive loss.....	(55)	(131)
	-----	-----
<b>Total shareholder's equity.....</b>	<b>(155)</b>	<b>581</b>
	-----	-----
<b>Total liabilities and shareholder's equity.....</b>	<b>\$20,911</b>	<b>\$69,057</b>
	=====	=====

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

## PFSWEB

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

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
	-----	-----	-----
REVENUES:			
Product revenue.....	\$16,543	\$45,804	\$ 93,702
Service fee revenue.....	1,034	3,539	7,547
	-----	-----	-----
Total revenues.....	17,577	49,343	101,249
	-----	-----	-----
COSTS OF REVENUES:			
Cost of product revenue.....	15,768	43,392	88,335
Cost of service fee revenue.....	596	2,208	5,323
	-----	-----	-----
Total costs of revenues.....	16,364	45,600	93,658
	-----	-----	-----
Gross profit.....	1,213	3,743	7,591
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	1,074	3,705	6,711
	-----	-----	-----
Income from operations.....	139	38	880
INTEREST EXPENSE, net.....	77	143	374
	-----	-----	-----
Income (loss) before income taxes.....	62	(105)	506
PROVISION (BENEFIT) FOR INCOME TAXES.....	38	(30)	214
	-----	-----	-----
NET INCOME (LOSS).....	\$ 24	\$ (75)	\$ 292
	=====	=====	=====
NET INCOME (LOSS) PER SHARE:			
Basic and diluted.....	\$ 0.00	\$ (0.01)	\$ 0.02
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic and diluted.....	14,305	14,305	14,305
	=====	=====	=====

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



## PFSWEB

COMBINED STATEMENTS OF SHAREHOLDER'S EQUITY  
(IN THOUSANDS)

	DAISYTEK'S NET EQUITY INVESTMENT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDER'S EQUITY	COMPREHENSIVE INCOME (LOSS)
	-----	-----	-----	-----
BALANCE, March 31, 1996.....	\$ (49)	\$ --	\$ (49)	
Net income.....	24	--	24	\$ 24
Other comprehensive income -- foreign currency translation adjustment.....	--	17	17	17
	-----	-----	-----	-----
Comprehensive income.....				\$ 41
				=====
BALANCE, March 31, 1997.....	(25)	17	(8)	
Net loss.....	(75)	--	(75)	\$ (75)
Other comprehensive loss -- foreign currency translation adjustment.....	--	(72)	(72)	(72)
	-----	-----	-----	-----
Comprehensive loss.....				\$(147)
				=====
BALANCE, March 31, 1998.....	(100)	(55)	(155)	
Net income.....	292	--	292	\$ 292
Contributed capital.....	520	--	520	
Other comprehensive loss -- foreign currency translation adjustment.....	--	(76)	(76)	(76)
	-----	-----	-----	-----
Comprehensive income.....				\$ 216
				=====
BALANCE, March 31, 1999.....	\$ 712	\$(131)	\$ 581	
	=====	=====	=====	

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

## PFSWEB

COMBINED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ 24	\$ (75)	\$ 292
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	3	63	275
Provision for doubtful accounts.....	122	299	344
Deferred income tax benefit.....	(41)	(222)	(192)
Changes in operating assets and liabilities:			
Accounts receivable.....	(5,150)	(3,640)	(13,615)
Inventories, net.....	(9,864)	(1,413)	(18,630)
Prepaid expenses and other current assets.....	--	--	(1,001)
Trade accounts payable and accrued expenses.....	9,753	9,487	20,231
Net cash provided by (used in) operating activities....	(5,153)	4,499	(12,296)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment.....	(100)	(294)	(2,658)
Increase in other assets.....	--	--	(12,264)
Net cash used in investing activities.....	(100)	(294)	(14,922)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contribution.....	--	--	520
Increase (decrease) in payable to Daisytek.....	5,232	(4,034)	27,202
Net cash provided by (used in) financing activities....	5,232	(4,034)	27,722
EFFECT OF EXCHANGE RATES ON CASH.....	25	(62)	(30)
NET INCREASE IN CASH.....	4	109	474
CASH, beginning of period.....	--	4	113
CASH, end of period.....	\$ 4	\$ 113	\$ 587

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

## NOTES TO COMBINED FINANCIAL STATEMENTS

## 1. OVERVIEW AND BASIS OF PRESENTATION:

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES:

## PRINCIPLES OF COMBINATION

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

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

## USE OF ESTIMATES

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

## REVENUE RECOGNITION

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

## COSTS OF REVENUES

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

## CONCENTRATION OF BUSINESS AND CREDIT RISK

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

## CASH AND CASH EQUIVALENTS

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

## ACCOUNTS RECEIVABLE

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

## INVENTORIES

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

## PROPERTY AND EQUIPMENT

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

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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

## OTHER ASSETS

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

## FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

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

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

## INCOME TAXES

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

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

## NET INCOME (LOSS) PER COMMON SHARE

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

## ADOPTION OF NEW ACCOUNTING STANDARDS

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

## CASH PAID DURING YEAR

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

## 3. PAYABLE TO DAISYTEK:

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

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

## 4. GUARANTEE OF DAISYTEK DEBT

PFSweb, along with several other Daisytek subsidiaries, has guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). As of March 31, 1999, Daisytek had borrowed \$29.8 million and has a maximum borrowing availability of \$85.0 million under the Facility, leaving approximately \$55.2 million available under the Facility. The Facility, and PFSweb's guarantee thereon, expires on December 31, 2000 (See Note 10).

## 5. STOCK OPTIONS:

Certain of the Company's employees, and individuals that are expected to become Company employees upon this Offering and/or spin-off transaction described in Note 1, have been granted Daisytek stock options under Daisytek's stock option compensation plans (the "Plans"). The

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

purpose of the Plans is to benefit and advance the interests of Daisytek by rewarding officers and certain key employees for their contributions to the financial success of Daisytek and thereby motivating them to continue to make such contributions in the future. The Plans provide for fixed grants of both incentive stock options and nonqualified stock options. The stock options generally vest over a three to five year period from the date of grant and expire 10 years after the date of grant.

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

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

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

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

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

## 6. TRANSACTIONS WITH DAISYTEK AND OTHER RELATED PARTIES:

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

The Company's costs and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The methods used for allocation of expenses from Daisytek were either (i) percentage of: revenue, shipped orders, or number of employees, or (ii) management's best estimate. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis. Management estimates that incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs would have been approximately \$2.0 to \$2.2 million for each of the fiscal years 1997, 1998 and 1999.

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

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

## 7. INCOME TAXES:

The Company's operations have been included in consolidated income tax returns filed by Daisytek. If Daisytek or other members of the consolidated group fail to make tax payments required by law, PFSweb would be liable for any shortfall. The provision for income taxes reflected in the combined statements of operations and the deferred tax assets reflected in the combined



## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

balance sheets have been prepared as computed on a separate return basis. The current income tax liabilities for the periods presented have been included in the payable to Daisytek.

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

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
Provision (benefit) computed at statutory rate.....	\$21	\$(36)	\$172
Impact of foreign taxation at different rate.....	1	6	16
State income taxes, net of federal tax impact.....	6	(4)	21
Expenses not deductible for tax purposes.....	8	5	11
Other.....	2	(1)	(6)
	----	----	----
Provision (benefit) for income taxes.....	\$38	\$(30)	\$214
	====	====	====

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

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
Domestic.....	\$ 51	\$(155)	\$255
Foreign.....	11	50	251
	----	----	----
Total.....	\$ 62	\$(105)	\$506
	====	====	====

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

	FISCAL YEARS ENDED MARCH 31,		
	1997	1998	1999
Current			
Domestic.....	\$ 58	\$ 160	\$ 268
State.....	8	9	33
Foreign.....	13	23	105
	----	----	----
Total current.....	79	192	406
Deferred			
Domestic.....	(41)	(208)	(175)
State.....	--	(14)	(17)
	----	----	----
Total deferred.....	(41)	(222)	(192)
	----	----	----
Total.....	\$ 38	\$ (30)	\$ 214
	====	====	====

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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

	MARCH 31,	
	1998	1999
	----	----
Deferred tax asset:		
Allowance for doubtful accounts.....	\$108	\$216
Inventory.....	49	70
Other.....	106	205
	----	----
Total deferred tax asset.....	263	491
	----	----
Deferred tax liability:		
Property and equipment.....	(2)	(38)
	----	----
Total deferred liability.....	(2)	(38)
	----	----
Deferred tax asset, net.....	\$261	\$453
	=====	=====

## 8. COMMITMENTS AND CONTINGENCIES:

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

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

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

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

## 9. SEGMENT AND GEOGRAPHIC INFORMATION:

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

## NOTES TO COMBINED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

## 10. SUBSEQUENT EVENTS:

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

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

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

On October 29, 1999, Daisytek amended the Facility, effective November 1, 1999, to increase the maximum borrowing availability to \$105 million. This amendment also provides for the release of PFSweb, Inc. and its subsidiaries as guarantors of the Facility upon (i) the effective date of the Offering of the shares of common stock of PFSweb, Inc. and (ii) the payment from PFSweb, Inc. to Daisytek in settlement of the outstanding payable to Daisytek. Additionally, this amendment also prohibits Daisytek from advancing funds to PFSweb, Inc. following the completion of this Offering.

During the quarter ended September 30, 1999 and in connection with the restructuring of certain IBM master distribution agreements, the Company transferred to Daisytek certain related product inventory, accounts receivable and accounts payable that it held under its prior agreements. In consideration of this transfer, the Company received the net book value of these assets and liabilities and reduced its payable to Daisytek by a corresponding amount.

## PFSWEB

INTERIM CONDENSED COMBINED BALANCE SHEETS  
(IN THOUSANDS)

## ASSETS

	MARCH 31, 1999	SEPTEMBER 30, 1999
	-----	-----
		(UNAUDITED)
CURRENT ASSETS:		
Cash.....	\$ 587	\$ 1,247
Accounts receivable, net of allowance for doubtful accounts of \$635 and \$587 at March 31, 1999 and September 30, 1999, respectively.....	22,190	6,029
Inventories, net.....	29,856	--
Prepaid expenses and other current assets.....	997	1,410
Deferred tax asset.....	453	382
	-----	-----
Total current assets.....	54,083	9,068
	-----	-----
PROPERTY AND EQUIPMENT, at cost:		
Furniture, fixtures and equipment.....	3,009	6,522
Leasehold improvements.....	32	2,671
	-----	-----
	3,041	9,193
Less -- Accumulated depreciation and amortization.....	(330)	(861)
	-----	-----
Net property and equipment.....	2,711	8,332
OTHER ASSETS.....	12,263	12,588
	-----	-----
Total assets.....	\$69,057	\$29,988
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable.....	\$38,329	\$ 6,494
Accrued expenses.....	1,118	1,413
	-----	-----
Total current liabilities.....	39,447	7,907
	-----	-----
PAYABLE TO DAISYTEK.....	29,029	22,319
	-----	-----
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Daisytek's net equity investment.....	712	(61)
Accumulated other comprehensive loss.....	(131)	(177)
	-----	-----
Total shareholder's equity (deficit).....	581	(238)
	-----	-----
Total liabilities and shareholder's equity.....	\$69,057	\$29,988
	=====	=====

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

## PFSWEB

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

	SIX MONTHS ENDED SEPTEMBER 30,	
	1998	1999
	-----	-----
REVENUES:		
Product revenue.....	\$41,327	\$55,778
Service fee revenue.....	2,761	7,004
Total revenues.....	44,088	62,782
	-----	-----
COSTS OF REVENUES:		
Cost of product revenue.....	39,243	52,639
Cost of service fee revenue.....	2,155	4,898
Total costs of revenues.....	41,398	57,537
	-----	-----
Gross profit.....	2,690	5,245
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,576	5,871
	-----	-----
Income (loss) from operations.....	114	(626)
INTEREST EXPENSE, net.....	139	650
	-----	-----
Loss before income taxes.....	(25)	(1,276)
BENEFIT FOR INCOME TAXES.....	(9)	(503)
	-----	-----
NET LOSS.....	\$ (16)	\$ (773)
	=====	=====
NET LOSS PER SHARE:		
Basic and diluted.....	\$ (0.00)	\$ (0.05)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and diluted.....	14,305	14,305
	=====	=====

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

## PFSWEB

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

	SIX MONTHS ENDED SEPTEMBER 30,	
	1998	1999
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss.....	\$ (16)	\$ (773)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization.....	88	634
Provision for doubtful accounts.....	152	147
Deferred income tax benefit.....	(97)	71
Changes in operating assets and liabilities:		
Accounts receivable.....	(6,406)	16,022
Inventories, net.....	(9,925)	29,864
Prepaid expenses and other current assets.....	--	(413)
Trade accounts payable and accrued expenses.....	10,739	(31,547)
	-----	-----
Net cash provided by (used in) operating activities.....	(5,465)	14,005
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment.....	(465)	(6,232)
Increase in other assets.....	(3,302)	(344)
	-----	-----
Net cash used in investing activities.....	(3,767)	(6,576)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in payable to DaisYTEK, net.....	9,171	(6,710)
	-----	-----
Net cash provided by (used in) financing activities.....	9,171	(6,710)
	-----	-----
EFFECT OF EXCHANGE RATES ON CASH.....	(16)	(59)
	-----	-----
NET (DECREASE) INCREASE IN CASH.....	(77)	660
CASH, beginning of period.....	113	587
	-----	-----
CASH, end of period.....	\$ 36	\$ 1,247
	=====	=====

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

## PFSWEB

NOTES TO UNAUDITED INTERIM  
CONDENSED COMBINED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION:

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

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

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

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

In the opinion of management, the unaudited interim condensed combined financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair

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

presentation of the Company's financial position as of September 30, 1999, its results of operations and its results of cash flows for the six months ended September 30, 1998 and 1999. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

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

2. COMPREHENSIVE LOSS (IN THOUSANDS):

	SIX MONTHS ENDED SEPTEMBER 30,	
	1998	1999
	----	----
Net loss.....	\$(16)	\$(773)
Comprehensive income adjustments:		
Foreign currency translation adjustment.....	(57)	(46)
Comprehensive loss.....	\$(73)	\$(819)
	====	=====

3. TRANSACTIONS WITH DAISYTEK AND OTHER RELATED PARTIES:

The Company's product revenue from sales to Daisytek was \$8.7 million and \$7.2 million for the six months ended September 30, 1998 and 1999, respectively.

The Company's cost and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The methods used for allocation or expenses from Daisytek were either (i) percentage of: revenue, shipped orders, or number of employees or (ii) management's best estimate. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis. Management estimates that incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs would have been approximately \$1.0 to \$1.1 million for each of the six months ended September 30, 1998 and 1999.

In addition, included in the combined financial statements are service fee revenues and cost of service fee revenue which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements. Service fee revenues applicable to these contracts were \$363,000 and \$350,000 for the six months ended September 30, 1998 and 1999, respectively.

During the quarter ended September 30, 1999 and in connection with the restructuring of certain IBM master distribution agreements, the Company transferred to Daisytek certain related product inventory, accounts receivable and accounts payable that it held under its prior agreements. In consideration of this transfer, the Company received the net book value of these assets and liabilities of approximately \$20 million and reduced its payable to Daisytek by a corresponding amount.



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

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

PFSweb, along with several other Daisytek subsidiaries, has guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). As of September 30, 1999, Daisytek had borrowed \$55.0 million and has a maximum borrowing availability of \$85.0 million under the Facility, leaving approximately \$30.0 million available under the Facility. The Facility, and PFSweb's guarantee thereon, expires on December 31, 2000.

#### 4. NET LOSS PER COMMON SHARE:

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

#### 5. OTHER MATTERS:

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

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

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

On October 29, 1999, Daisytek amended the Facility, effective November 1, 1999, to increase the maximum borrowing availability to \$105 million. This amendment also provides for the release of PFSweb, Inc. and its subsidiaries as guarantors or the Facility upon (i) the effective date of the Offering of the shares of common stock of PFSweb, Inc. and (ii) the payment from PFSweb, Inc. to Daisytek in settlement of the outstanding payable to Daisytek. Additionally, this amendment also prohibits Daisytek from advancing funds to PFSweb, Inc. following the completion of this Offering.

## PFSWEB, INC.

PRO FORMA COMBINED BALANCE SHEETS (UNAUDITED)  
 SEPTEMBER 30, 1999  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
	-----	-----	-----
<b>CURRENT ASSETS:</b>			
Cash.....	\$ 1,247	\$ 13,146(2), (3)	\$14,393
Accounts receivable, net.....	6,029	--	6,029
Prepaid expenses and other current assets.....	1,410	(466)(2)	944
Deferred tax asset.....	382	--	382
Total current assets.....	9,068	12,680	21,748
<b>PROPERTY AND EQUIPMENT:</b>			
Furniture, fixtures and equipment.....	6,522	--	6,522
Leasehold improvements.....	2,671	--	2,671
Total.....	9,193	--	9,193
Less -- Accumulated depreciation and amortization.....	(861)	--	(861)
Net property and equipment.....	8,332	--	8,332
<b>OTHER ASSETS.....</b>	<b>12,588</b>	<b>--</b>	<b>12,588</b>
Total assets.....	\$29,988	\$ 12,680	\$42,668
	=====	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable.....	\$ 6,494	\$	\$ 6,494
Accrued expenses.....	1,413	--	1,413
Total current liabilities.....	7,907	--	7,907
PAYABLE TO DAISYTEK.....	22,319	(22,319)(2)	--
CAPITAL LEASE OBLIGATIONS.....	--	--	--
<b>SHAREHOLDERS' EQUITY:</b>			
Preferred stock, \$1.00 par value, 1,000,000 shares authorized, none issued and outstanding.....	--	--	--
Common stock, \$0.001 par value, 40,000,000 shares authorized, 17,405,000 shares issued and outstanding (pro forma and supplemental pro forma).....	--	17(1), (2), (3)	17
Additional paid-in capital.....	--	34,921(1), (2), (3)	34,921
Daisytek's net equity investment.....	(61)	61(1)	--
Accumulated other comprehensive loss.....	(177)	--	(177)
Total shareholders' equity.....	(238)	34,999	34,761
Total liabilities and shareholders' equity.....	\$29,988	\$ 12,680	\$42,668
	=====	=====	=====

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

## PFSWEB, INC.

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

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
	-----	-----	-----
REVENUES:			
Product revenue.....	\$ 93,702	\$ --	\$ 93,702
Service fee revenue.....	7,547	--	7,547
	-----	-----	-----
Total revenues.....	101,249	--	101,249
	-----	-----	-----
COSTS OF REVENUES:			
Cost of product revenue.....	88,335	--	88,335
Cost of service fee revenue.....	5,323	--	5,323
	-----	-----	-----
Total costs of revenues.....	93,658	--	93,658
	-----	-----	-----
Gross profit.....	7,591	--	7,591
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	6,711	--	6,711
	-----	-----	-----
Income from operations.....	880	--	880
INTEREST EXPENSE (INCOME), net.....	374	(1,039)(2)	(665)
	-----	-----	-----
Income before income taxes.....	506	1,039	1,545
PROVISION FOR INCOME TAXES(4).....	214	405	619
	-----	-----	-----
NET INCOME.....	\$ 292	\$ 634	\$ 926
	=====	=====	=====
NET INCOME PER COMMON SHARE(5):			
Basic and diluted.....	\$ 0.02	\$ 0.04	\$ 0.05
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic and diluted.....	14,305	17,405	17,405

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

## PFSWEB, INC.

PRO FORMA COMBINED STATEMENTS OF OPERATIONS (UNAUDITED)  
 FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1999  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA
	-----	-----	-----
REVENUES:			
Product revenue.....	\$55,778	\$ --	\$55,778
Service fee revenue.....	7,004	--	7,004
Total revenues.....	62,782	--	62,782
COSTS OF REVENUES:			
Cost of product revenue.....	52,639	--	52,639
Cost of service fee revenue.....	4,898	--	4,898
Total costs of revenues.....	57,537	--	57,537
Gross profit.....	5,245	--	5,245
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	5,871	--	5,871
Loss from operations.....	(626)	--	(626)
INTEREST EXPENSE (INCOME), net.....	650	(1,066)(2)	(416)
Loss before income taxes.....	(1,276)	1,066	(210)
PROVISION (BENEFIT) FOR INCOME TAXES(4).....	(503)	415	(88)
NET LOSS.....	\$ (773)	\$ 651	\$ (122)
	=====	=====	=====
NET LOSS PER COMMON SHARE(5):			
Basic and diluted.....	\$ (0.05)	\$ 0.04	\$ (0.01)
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic and diluted.....	14,305	17,405	17,405

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

## PFSWEB, INC.

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS  
(UNAUDITED)

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

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

The unaudited pro forma combined statements of operations of PFSweb, Inc. for the fiscal year ended March 31, 1999 and the six months ended September 30, 1999 do not reflect certain estimated incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs estimated to be \$2.2 million and \$1.1 million, respectively.

- (1) Reflects the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital.
- (2) Reflects the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of \$13.00 per share, and the application of the estimated \$35.0 million net proceeds to settle the outstanding payable to Daisytek, reduce deferred offering costs, and increase cash. The pro forma adjustments reflect the reduction of historical interest expense associated with our payable to Daisytek but do not reflect any interest income generated by the proceeds in excess of our payable to Daisytek. See "Capitalization" and "Use of Proceeds" elsewhere in this prospectus.
- (3) Reflects the contribution from Daisytek of \$20,000 for 14,305,000 shares of PFSweb's common stock.
- (4) Reflects income taxes determined in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." The pro forma adjustments to the provision (benefit) for taxes reflect income taxes as if these transactions and events had occurred as of the beginning of the respective period presented. These pro forma effective income tax rates may not be indicative of performance in future periods.
- (5) Reflects basic pro forma net income per share calculated based on common stock outstanding of 17,405,000 shares upon completion of this offering. It does not include up to 465,000 shares of common stock which the underwriters have the option to exercise solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, basic and diluted pro forma net income per share would be \$0.05 for the fiscal year ended March 31, 1999. Basic and diluted pro forma net loss per share would be (\$0.01) and basic for the six months ended September 30, 1999.

[inside back cover]

Picture # 1 - Daisytek headquarters - no caption.

Picture # 2 - inside of warehouse - no caption.

Picture # 3 - call center - no caption.

Picture # 4 - conference room - no caption.

Picture # 5 - outside of warehouse - no caption.

Picture # 6 - warehouse product bins - no caption.

Picture # 7 - warehouse conveyor equipment - no caption.

Picture # 8 - warehouse distribution equipment - no caption.

PFSweb logo and "From the click of the mouse to the knock at the house"

(TM)

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-----  
3,100,000 SHARES

[PFS LOGO]

COMMON STOCK

-----  
PROSPECTUS  
-----

HAMBRECHT & QUIST

DAIN RAUSCHER WESSELS  
A DIVISION OF DAIN RAUSCHER INCORPORATED

JEFFERIES & COMPANY, INC.

-----  
, 1999  
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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. We are offering to sell and seeking offers to buy shares of PFSweb, Inc. common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the PFSweb, Inc. common stock.

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

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## PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

## ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

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

ITEM - - - -	AMOUNT -----
Securities and Exchange Commission registration fee.....	\$ 13,875
NASD registration fee.....	5,500
Nasdaq Stock Market listing fees.....	95,000
Blue Sky qualification fees and expenses.....	10,000
Legal fees and expenses.....	600,000
Accounting fees and expenses.....	1,300,000
Transfer agent fees.....	10,000
Printing and engraving expenses.....	150,000
Miscellaneous expenses.....	315,625
	-----
Total.....	\$2,500,000 =====

## ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

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

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



## ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

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

## ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

## (a) Exhibits

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

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\*\* Previously filed.

## (b) Financial Statement Schedule.

Schedule II -- Valuation and Qualifying Accounts

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

ITEM 17. UNDERTAKINGS

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

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

The undersigned Registrant hereby undertakes that:

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

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

## SIGNATURES

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

/s/ MARK C. LAYTON\*

-----  
 Mark C. Layton  
 President, Chief Executive Officer  
 and Director

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

SIGNATURE

TITLE

/s/ MARK C. LAYTON\*

-----  
 Mark C. Layton

Chairman of the Board, President and Chief  
 Executive Officer (Principal Executive  
 Officer)

/s/ THOMAS J. MADDEN

-----  
 Thomas J. Madden

Executive Vice President and Chief Financial  
 and Accounting Officer (Principal  
 Financial and Accounting Officer)

/s/ CHRISTOPHER YATES\*

-----  
 Christopher Yates

Director

/s/ JAMES R. POWELL\*

-----  
 James R. Powell

Director

/s/ TIMOTHY M. MURRAY\*

-----  
 Timothy M. Murray

Director

/s/ JAMES F. REILLY\*

-----  
 James F. Reilly

Director

/s/ PETER P. J. VIKANIS\*

-----  
 Peter P. J. Vikanis

Director

\*By: /s/ THOMAS J. MADDEN

-----  
 Thomas J. Madden by  
 Power of Attorney

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Daisytek International Corporation and PFSweb, Inc.:

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

ARTHUR ANDERSEN LLP

Dallas, Texas,  
September 22, 1999

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## SCHEDULE II

PFSWEB

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

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

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## INDEX TO EXHIBITS

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-----  
 \*\* Previously filed.

PFSWEB, INC.

3,100,000 SHARES(1)

COMMON STOCK

UNDERWRITING AGREEMENT

\_\_\_\_\_, 1999

HAMBRECHT & QUIST LLC  
 Dain Rauscher Wessels, a division of Dain Rauscher Incorporated  
 Jefferies & Company, Inc.  
 c/o Hambrecht & Quist LLC  
 One Bush Street  
 San Francisco, CA 94104

Ladies and Gentlemen:

PFSweb, Inc., a Delaware corporation (herein called the Company), proposes to issue and sell 3,100,000 shares of its authorized but unissued Common Stock, \$0.001 par value (herein called the Common Stock) (said 3,100,000 shares of Common Stock being herein called the Underwritten Stock). The Company proposes to grant to the Underwriters (as hereinafter defined) an option to purchase up to 465,000 additional shares of Common Stock (herein called the Option Stock and with the Underwritten Stock herein collectively called the Stock). The Common Stock is more fully described in the Registration Statement and the Prospectus hereinafter mentioned.

The Company hereby confirms the agreements made with respect to the purchase of the Stock by the several underwriters, for whom you are acting, named in Schedule I hereto (herein collectively called the Underwriters, which term shall also include any underwriter purchasing Stock pursuant to Section 3(b) hereof). You represent and warrant that you have been authorized by each of the other Underwriters to enter into this Agreement on its behalf and to act for it in the manner herein provided.

As part of the offering contemplated by this Agreement, Hambrecht & Quist LLC has agreed to reserve out of the Stock set forth opposite its name on Schedule I to this Agreement, up to 217,000 shares, for sale to the Company's employees, officers, directors and associates (collectively, "Participants"), as set forth in the Prospectus under the heading "Underwriting" (the "Directed Share Program"). The Stock to be sold by Hambrecht & Quist LLC pursuant to the Directed Share Program (the "Directed Shares") will be sold by Hambrecht & Quist LLC

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 1 Plus an option to purchase from the Company up to 465,000 additional shares to cover over-allotments.

pursuant to this Agreement at the public offering price. Any Directed Shares not orally confirmed for purchase by any Participants by the end of the first business day after the date on which this Agreement is executed will be offered to the public by Hambrecht & Quist LLC as set forth in the Prospectus.

1. REGISTRATION STATEMENT. The Company has filed with the Securities and Exchange Commission (herein called the Commission) a registration statement on Form S-1 (No. 333-87657), including the related preliminary prospectus, for the registration under the Securities Act of 1933, as amended (herein called the Securities Act) of the Stock. Copies of such registration statement and of each amendment thereto, if any, including the related preliminary prospectus (meeting the requirements of Rule 430A of the rules and regulations of the Commission) heretofore filed by the Company with the Commission have been delivered to you.

The term Registration Statement as used in this agreement shall mean such registration statement, including all exhibits and financial statements, all information omitted therefrom in reliance upon Rule 430A and contained in the Prospectus referred to below, in the form in which it became effective, and any registration statement filed pursuant to Rule 462(b) of the rules and regulations of the Commission with respect to the Stock (herein called a Rule 462(b) registration statement), and, in the event of any amendment thereto after the effective date of such registration statement (herein called the Effective Date), shall also mean (from and after the effectiveness of such amendment) such registration statement as so amended (including any Rule 462(b) registration statement). The term Prospectus as used in this Agreement shall mean the prospectus relating to the Stock first filed with the Commission pursuant to Rule 424(b) and Rule 430A (or if no such filing is required, as included in the Registration Statement) and, in the event of any supplement or amendment to such prospectus after the Effective Date, shall also mean (from and after the filing with the Commission of such supplement or the effectiveness of such amendment) such prospectus as so supplemented or amended. The term Preliminary Prospectus as used in this Agreement shall mean each preliminary prospectus included in such registration statement prior to the time it becomes effective.

The Company has caused to be delivered to you copies of each Preliminary Prospectus and has consented to the use of such copies for the purposes permitted by the Securities Act.

## 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND DAISYTEK.

(a) Each of the Company and Daisytek International Corporation, a Delaware Corporation and parent of the Company ("Daisytek"), hereby jointly and severally represents and warrants as follows:

(i) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement and the Prospectus and as being conducted, and is duly qualified as a foreign corporation and in good standing in all jurisdictions in which the character of the property owned or leased or the nature of



the business transacted by it makes qualification necessary (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole). Daisytek has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation.

(ii) Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any materially adverse change in the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, other than as set forth in the Registration Statement and the Prospectus, and since such dates, except in the ordinary course of business, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement and the Prospectus.

(iii) The Registration Statement has been declared effective under the Securities Act, no post-effective amendment to the Registration Statement has been filed as of the date of this Agreement and no stop order suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus is in effect and no proceedings for that purpose have been instituted or are pending or contemplated by the Commission.

(iv) The Registration Statement and the Prospectus comply, and on the Closing Date (as hereinafter defined) and any later date on which Option Stock is to be purchased, the Prospectus will comply, in all material respects, with the provisions of the Securities Act and the rules and regulations of the Commission thereunder; on the Effective Date, the Registration Statement did not contain any untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date the Prospectus did not and, on the Closing Date and any later date on which Option Stock is to be purchased, will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this subparagraph (iv) shall apply to statements in, or omissions from, the Registration Statement or the Prospectus made in reliance upon and in conformity with information herein or otherwise furnished in writing to the Company by or on behalf of the Underwriters for use in the Registration Statement or the Prospectus.

(v) The authorized capital stock of the Company consists of 1,000,000 shares of Preferred Stock, \$1.00 par value, of which no shares are outstanding, and 40,000,000 shares of Common Stock, \$0.001 par value, of which there are outstanding [17,430,000] shares (including the Underwritten Stock plus the number of shares of Option Stock issued on the date hereof) and such authorized capital stock conforms as to legal matters to the description thereof contained in the Prospectus; proper corporate proceedings have been taken validly to authorize such authorized capital stock; all of the outstanding shares

of such capital stock (including the Underwritten Stock and the shares of Option Stock issued, if any) have been duly and validly issued and are fully paid and nonassessable; any Option Stock purchased after the Closing Date, when issued and delivered to and paid for by the Underwriters as provided in this Agreement, will have been duly and validly issued and be fully paid and nonassessable; and no preemptive rights of, or rights of refusal in favor of, stockholders exist with respect to the Stock, or the issue and sale thereof, pursuant to the Certificate of Incorporation or Bylaws of the Company and there are no contractual preemptive rights that have not been waived, rights of first refusal or right of co-sale which exist with respect to the issue and sale of the Stock. All the issued and outstanding capital stock of each of the subsidiaries of the Company has been duly authorized and validly issued and is fully paid and nonassessable, and is owned by the Company free and clear of all liens, encumbrances and security interests, and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in such subsidiaries are outstanding.

(vi) The Stock to be issued and sold by the Company is authorized for listing by the Nasdaq National Market.

(vii) The Company is not, and upon receipt and pending application of the net proceeds from the sale of the Stock to be sold by the Company in the manner described in the Prospectus will not be, an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(viii) Each of the Master Separation Agreement, the Initial Public Offering and Distribution Agreement, the Registration Rights Agreement, the Tax Indemnification and Allocation Agreement, the Transition Services Agreement, the Transaction Management Services Agreement (collectively, the "Spin-off Agreements") and this Agreement has been duly authorized, executed and delivered by the Company and Daisytek and each of the Spin-off Agreements is a valid and binding agreement of the Company and Daisytek enforceable in accordance with its terms.

(ix) This Agreement and the issue and sale by the Company of the shares of Stock sold by the Company as contemplated herein and the Spin-off Agreements and the transactions contemplated therein do not and will not conflict with, or result in a breach of, the Certificate of Incorporation or Bylaws of Daisytek, the Company or any of their subsidiaries, or any agreement or instrument to which Daisytek, the Company or any of their subsidiaries is a party or by which any of the properties or assets of Daisytek, the Company or any of their subsidiaries may be bound or affected, or any applicable law or regulation, or any order, writ, injunction or decree, of any jurisdiction, court or governmental instrumentality.

(x) No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in this Agreement, except such as have been obtained under the Securities Act and such as may

be required under state securities or blue sky laws in connection with the purchase and distribution of the Stock by the Underwriters, or for the consummation of the transactions contemplated in the Spin-off Agreements.

(xi) The Company's pro forma combined financial statements and notes forming part of the Registration Statement and the Prospectus (i) were derived from historical financial statements appearing in the Registration Statement and the Prospectus and (ii) are based on assumptions that provide a reasonable basis for presenting the significant effects of the transactions and events as described in the Registration Statement and the Prospectus, the related pro forma adjustments give appropriate effect to such assumptions; and the pro forma columns reflect the proper allocation of such adjustments to the historical financial statements.

(xii) The Company has not offered, or caused the Underwriters to offer, Stock to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company to alter the customer's or supplier's level or type of business with the Company or (ii) a trade journalist or publication to write or publish favorable information about the Company or its business. The Registration Statement, the Prospectus and any Preliminary Prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any Preliminary Prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, and no authorization, approval, consent, license, order, registration or qualification of or with any government, governmental instrumentality or court other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed Shares are offered outside the United States.

(xiii) The information required to be set forth in the Registration Statement in answer to Items 9, 10 and 11(c) of Form S-1 is accurately and adequately set forth therein in all material respects or no response is required with respect to such Items, and the description of the Company's stock option plans and the options granted and which may be granted thereunder set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to said plans and options to the extent required by the Securities Act and the rules and regulations of the Commission thereunder.

(xiv) There are no franchises, contracts, leases, documents or legal proceedings, pending or threatened, which are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not described and filed as required.

(xv) There are no holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company, that have not waived such rights, or such rights

have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement.

### 3. PURCHASE OF THE STOCK BY THE UNDERWRITERS.

(a) On the basis of the representations and warranties and subject to the terms and conditions herein set forth, the Company agrees to issue and sell 3,100,000 of the Underwritten Stock to the several Underwriters and each of the Underwriters agrees to purchase from the Company the respective aggregate number of shares of Underwritten Stock set forth opposite its name in Schedule I. The price at which such shares of Underwritten Stock shall be sold by the Company and purchased by the several Underwriters shall be \$\_\_\_ per share. In making this Agreement, each Underwriter is contracting severally and not jointly; except as provided in paragraphs (b) and (c) of this Section 3, the agreement of each Underwriter is to purchase only the respective number of shares of the Underwritten Stock specified in Schedule I.

(b) If for any reason one or more of the Underwriters shall fail or refuse (otherwise than for a reason sufficient to justify the termination of this Agreement under the provisions of Section 8 or 9 hereof) to purchase and pay for the number of shares of the Stock agreed to be purchased by such Underwriter or Underwriters, the Company shall immediately give notice thereof to you, and the non-defaulting Underwriters shall have the right within 24 hours after the receipt by you of such notice to purchase, or procure one or more other Underwriters to purchase, in such proportions as may be agreed upon between you and such purchasing Underwriter or Underwriters and upon the terms herein set forth, all or any part of the shares of the Stock which such defaulting Underwriter or Underwriters agreed to purchase. If the non-defaulting Underwriters fail so to make such arrangements with respect to all such shares and portion, the number of shares of the Stock which each non-defaulting Underwriter is otherwise obligated to purchase under this Agreement shall be automatically increased on a pro rata basis to absorb the remaining shares and portion which the defaulting Underwriter or Underwriters agreed to purchase; provided, however, that the non-defaulting Underwriters shall not be obligated to purchase the shares and portion which the defaulting Underwriter or Underwriters agreed to purchase if the aggregate number of such shares of the Stock exceeds 10% of the total number of shares of the Stock which all Underwriters agreed to purchase hereunder. If the total number of shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase shall not be purchased or absorbed in accordance with the two preceding sentences, the Company shall have the right, within 24 hours next succeeding the 24-hour period above referred to, to make arrangements with other underwriters or purchasers satisfactory to you for purchase of such shares and portion on the terms herein set forth. In any such case, either you or the Company shall have the right to postpone the Closing Date determined as provided in Section 5 hereof for not more than seven business days after the date originally fixed as the Closing Date pursuant to said Section 5 in order that any necessary changes in the Registration Statement, the Prospectus or any other documents or arrangements may be made. If neither the non-defaulting Underwriters nor the Company shall make arrangements within the 24-hour periods stated above for the purchase of all the shares of the Stock which the defaulting Underwriter or Underwriters agreed to purchase hereunder, this Agreement shall be terminated without further act or deed and without any liability on the part of the Company to any non-defaulting Underwriter and without any liability on the part of any non-defaulting Underwriter

to the Company. Nothing in this paragraph (b), and no action taken hereunder, shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

(c) On the basis of the representations, warranties and covenants herein contained, and subject to the terms and conditions herein set forth, the Company grants an option to the several Underwriters to purchase, severally and not jointly, up to 465,000 shares in the aggregate of the Option Stock from the Company at the same price per share as the Underwriters shall pay for the Underwritten Stock. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Stock by the Underwriters and may be exercised in whole or in part at any time (but not more than once) on or before the thirtieth day after the date of this Agreement upon written or telegraphic notice by you to the Company setting forth the aggregate number of shares of the Option Stock as to which the several Underwriters are exercising the option. Delivery of certificates for the shares of Option Stock, and payment therefor, shall be made as provided in Section 5 hereof. The number of shares of the Option Stock to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Stock to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Stock, as adjusted by you in such manner as you deem advisable to avoid fractional shares.

#### 4. OFFERING BY UNDERWRITERS.

(a) The terms of the initial public offering by the Underwriters of the Stock to be purchased by them shall be as set forth in the Prospectus. The Underwriters may from time to time change the public offering price after the closing of the initial public offering and increase or decrease the concessions and discounts to dealers as they may determine.

(b) The information set forth in the last paragraph on the front cover page and under "Underwriting" in the Registration Statement, any Preliminary Prospectus and the Prospectus relating to the Stock filed by the Company (insofar as such information relates to the Underwriters) constitutes the only information furnished by the Underwriters to the Company for inclusion in the Registration Statement, any Preliminary Prospectus, and the Prospectus, and you on behalf of the respective Underwriters represent and warrant to the Company that the statements made therein are correct.

#### 5. DELIVERY OF AND PAYMENT FOR THE STOCK.

(a) Delivery of certificates for the shares of the Underwritten Stock and the Option Stock (if the option granted by Section 3(c) hereof shall have been exercised not later than 7:00 A.M., San Francisco time, on the date two business days preceding the Closing Date), and payment therefor, shall be made at the office of Gibson, Dunn & Crutcher LLP, 1717 Main Street, Dallas, Texas 75201, at 7:00 a.m., San Francisco time, on the [fourth] business day after the date of this Agreement, or at such time on such other day, not later than seven full business days after such [fourth] business day, as shall be agreed upon in writing by the Company and you. The date and hour of such delivery and payment (which may be postponed as provided in Section 3(b) hereof) are herein called the Closing Date.

(b) If the option granted by Section 3(c) hereof shall be exercised after 7:00 a.m., San Francisco time, on the date two business days preceding the Closing Date, delivery of certificates for the shares of Option Stock, and payment therefor, shall be made at the office of Gibson, Dunn & Crutcher LLP, 1717 Main Street, Dallas, Texas 75201, at 7:00 a.m., San Francisco time, on the third business day after the exercise of such option.

(c) Payment for the Stock purchased from the Company shall be made to the Company or its order by wire transfer in same day funds. Such payment shall be made upon delivery of certificates for the Stock to you for the respective accounts of the several Underwriters against receipt therefor signed by you. Certificates for the Stock to be delivered to you shall be registered in such name or names and shall be in such denominations as you may request at least one business day before the Closing Date, in the case of Underwritten Stock, and at least one business day prior to the purchase thereof, in the case of the Option Stock. Such certificates will be made available to the Underwriters for inspection, checking and packaging at the offices of \_\_\_\_\_, at \_\_\_\_\_ on the business day prior to the Closing Date or, in the case of the Option Stock, by 3:00 p.m., New York time, on the business day preceding the date of purchase.

It is understood that you, individually and not on behalf of the Underwriters, may (but shall not be obligated to) make payment to the Company for shares to be purchased by any Underwriter whose funds shall not have been received by you on the Closing Date or any later date on which Option Stock is purchased for the account of such Underwriter. Any such payment by you shall not relieve such Underwriter from any of its obligations hereunder.

6. FURTHER AGREEMENTS OF THE COMPANY AND DAISYTEK. The Company and Daisytek covenant and agree (and Daisytek shall cause the Company to covenant and agree) as follows:

(a) The Company will (i) prepare and timely file with the Commission under Rule 424(b) a Prospectus containing information previously omitted at the time of effectiveness of the Registration Statement in reliance on Rule 430A and (ii) not file any amendment to the Registration Statement or supplement to the Prospectus of which you shall not previously have been advised and furnished with a copy or to which you shall have reasonably objected in writing or which is not in compliance with the Securities Act or the rules and regulations of the Commission.

(b) The Company will promptly notify each Underwriter in the event of (i) the request by the Commission for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, (ii) the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, (iii) the institution or notice of intended institution of any action or proceeding for that purpose, (iv) the receipt by the Company of any notification with respect to the suspension of the qualification of the Stock for sale in any jurisdiction, or (v) the receipt by it of notice of the initiation or threatening of any proceeding for such purpose. The Company will make every reasonable effort to prevent the issuance of such

a stop order and, if such an order shall at any time be issued, to obtain the withdrawal thereof at the earliest possible moment.

(c) The Company will (i) on or before the Closing Date, deliver to you a signed copy of the Registration Statement as originally filed and of each amendment thereto filed prior to the time the Registration Statement becomes effective and, promptly upon the filing thereof, a signed copy of each post-effective amendment, if any, to the Registration Statement (together with, in each case, all exhibits thereto unless previously furnished to you) and will also deliver to you, for distribution to the Underwriters, a sufficient number of additional conformed copies of each of the foregoing (but without exhibits) so that one copy of each may be distributed to each Underwriter, (ii) as promptly as possible deliver to you and send to the several Underwriters, at such office or offices as you may designate, as many copies of the Prospectus as you may reasonably request, and (iii) thereafter from time to time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, likewise send to the Underwriters as many additional copies of the Prospectus and as many copies of any supplement to the Prospectus and of any amended prospectus, filed by the Company with the Commission, as you may reasonably request for the purposes contemplated by the Securities Act.

(d) If at any time during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer any event relating to or affecting the Company, or of which the Company shall be advised in writing by you, shall occur as a result of which it is necessary, in the opinion of counsel for the Company or of counsel for the Underwriters, to supplement or amend the Prospectus in order to make the Prospectus not misleading in the light of the circumstances existing at the time it is delivered to a purchaser of the Stock, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus so that the Prospectus as so supplemented or amended will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time such Prospectus is delivered to such purchaser, not misleading. If, after the initial public offering of the Stock by the Underwriters and during such period, the Underwriters shall propose to vary the terms of offering thereof by reason of changes in general market conditions or otherwise, you will advise the Company in writing of the proposed variation, and, if in the opinion either of counsel for the Company or of counsel for the Underwriters such proposed variation requires that the Prospectus be supplemented or amended, the Company will forthwith prepare and file with the Commission a supplement to the Prospectus or an amended prospectus setting forth such variation. The Company authorizes the Underwriters and all dealers to whom any of the Stock may be sold by the several Underwriters to use the Prospectus, as from time to time amended or supplemented, in connection with the sale of the Stock in accordance with the applicable provisions of the Securities Act and the applicable rules and regulations thereunder for such period.

(e) Prior to the filing thereof with the Commission, the Company will submit to you, for your information, a copy of any post-effective amendment to the Registration

Statement and any supplement to the Prospectus or any amended prospectus proposed to be filed.

(f) The Company will cooperate, when and as requested by you, in the qualification of the Stock for offer and sale under the securities or blue sky laws of such jurisdictions as you may designate and, during the period in which a prospectus is required by law to be delivered by an Underwriter or dealer, in keeping such qualifications in good standing under said securities or blue sky laws; provided, however, that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. The Company will, from time to time, prepare and file such statements, reports, and other documents as are or may be required to continue such qualifications in effect for so long a period as you may reasonably request for distribution of the Stock.

(g) During a period of five years commencing with the date hereof, the Company will furnish to you, and to each Underwriter who may so request in writing, copies of all periodic and special reports furnished to stockholders of the Company and of all information, documents and reports filed with the Commission (including the Report on Form SR required by Rule 463 of the Commission under the Securities Act).

(h) Not later than the 45th day following the end of the fiscal quarter first occurring after the first anniversary of the Effective Date, the Company will make generally available to its security holders an earnings statement in accordance with Section 11(a) of the Securities Act and Rule 158 thereunder.

(i) The Company agrees to pay all costs and expenses incident to the performance of its obligations under this Agreement, including all costs and expenses incident to (i) the preparation, printing and filing with the Commission and the National Association of Securities Dealers, Inc. of the Registration Statement, any Preliminary Prospectus and the Prospectus, (ii) the furnishing to the Underwriters of copies of any Preliminary Prospectus and of the several documents required by paragraph (c) of this Section 6 to be so furnished, (iii) the printing of this Agreement and related documents delivered to the Underwriters, (iv) the preparation, printing and filing of all supplements and amendments to the Prospectus referred to in paragraph (d) of this Section 6, (v) the furnishing to you and the Underwriters of the reports and information referred to in paragraph (g) of this Section 6 and (vi) the printing and issuance of stock certificates, including the transfer agent's fees.

(j) The Company agrees to reimburse you, for the account of the several Underwriters, for blue sky fees and related disbursements (including counsel fees and disbursements and cost of printing memoranda for the Underwriters) paid by or for the account of the Underwriters or their counsel in qualifying the Stock under state securities or blue sky laws and in the review of the offering by the NASD.

(k) The Company and Daisytek agree that, without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, neither the Company nor



Daisytek will, for a period of 180 days following the commencement of the public offering of the Stock by the Underwriters, directly or indirectly, (i) sell, offer, contract to sell, make any short sale, pledge, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Stock to be sold to the Underwriters pursuant to this Agreement and (B) options to purchase Common Stock granted under the stock option plans of the Company, all as described in "Management -- PFSweb Stock Option and Incentive Plans -- Employee Stock Option Plan" in the Preliminary Prospectus.

(l) If at any time during the 25-day period after the Registration Statement becomes effective any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price for the Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(m) The Company agrees to use its best efforts to complete the divestiture of the Company from Daisytek as described in the Registration Statement and the Prospectus.

(n) In connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the NASD or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. The Company will direct the transfer agent to place stop transfer restrictions upon such securities for such period of time. Furthermore, the Company will comply with all applicable securities and other applicable laws, rules and regulations in each foreign jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

(o) The Company agrees to pay, or reimburse if paid by the Underwriters, all reasonable fees and disbursements of counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program.

## 7. INDEMNIFICATION AND CONTRIBUTION.

(a) Each of the Company and Daisytek jointly and severally agrees to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Securities Exchange Act of 1934, as amended (herein called the Exchange Act), or the common law or otherwise, and each of the Company and Daisytek jointly and severally agrees to reimburse each such Underwriter and controlling person for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement), or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the indemnity agreements of the Company and Daisytek contained in this paragraph shall not apply to any such losses, claims, damages, liabilities or expenses if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of any Underwriter for use in any Preliminary Prospectus or the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto.

Further, each of the Company and Daisytek jointly and severally agrees to indemnify and hold harmless each Underwriter and each person (including each partner or officer thereof) who controls any Underwriter within the meaning of Section 15 of the Securities Act from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Securities Exchange Act, or the common law or otherwise, and each of the Company and Daisytek jointly and severally agrees to reimburse each such Underwriter and controlling person for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the prospectus wrapper material prepared by or with the consent of the Company for distribution in foreign jurisdictions in connection with the Directed Share Program attached to the Prospectus or any Preliminary Prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein, when considered in conjunction with the Prospectus or

any applicable Preliminary Prospectus, not misleading; (ii) caused by the failure of any Participant to pay for and accept delivery of the shares which, immediately following the effectiveness of the Registration Statement, were subject to a properly confirmed agreement to purchase; or (iii) related to, arising out of, or in connection with the Directed Share Program; provided, however, that, neither the Company nor Daisytek shall be responsible under this subparagraph (iii) for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of any Underwriter.

The indemnity agreements of each of the Company and Daisytek contained in this section 7(a) and the representations and warranties of the Company and Daisytek contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(b) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its officers who signs the Registration Statement on his own behalf or pursuant to a power of attorney, each of its directors, each other Underwriter and each person (including each partner or officer thereof) who controls the Company or any such other Underwriter within the meaning of Section 15 of the Securities Act, from and against any and all losses, claims, damages or liabilities, joint or several, to which such indemnified parties or any of them may become subject under the Securities Act, the Exchange Act, or the common law or otherwise and to reimburse each of them for any legal or other expenses (including, except as otherwise hereinafter provided, reasonable fees and disbursements of counsel) incurred by the respective indemnified parties in connection with defending against any such losses, claims, damages or liabilities or in connection with any investigation or inquiry of, or other proceeding which may be brought against, the respective indemnified parties, in each case arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (including the Prospectus as part thereof and any Rule 462(b) registration statement) or any post-effective amendment thereto (including any Rule 462(b) registration statement) or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) any untrue statement or alleged untrue statement of a material fact contained in the Prospectus (as amended or as supplemented if the Company shall have filed with the Commission any amendment thereof or supplement thereto) or the omission or alleged omission to state therein a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, if such statement or omission was made in reliance upon and in conformity with information furnished as herein stated or otherwise furnished in writing to the Company by or on behalf of such indemnifying Underwriter for use in the Registration Statement or the Prospectus or any such amendment thereof or supplement thereto. The indemnity agreement of each Underwriter contained in this paragraph (b) shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Stock.

(c) Each party indemnified under the provision of paragraphs (a) and (b) of this Section 7 agrees that, upon the service of a summons or other initial legal process upon it in any

action or suit instituted against it or upon its receipt of written notification of the commencement of any investigation or inquiry of, or proceeding against, it in respect of which indemnity may be sought on account of any indemnity agreement contained in such paragraphs, it will promptly give written notice (herein called the Notice) of such service or notification to the party or parties from whom indemnification may be sought hereunder. No indemnification provided for in such paragraphs shall be available to any party who shall fail so to give the Notice if the party to whom such Notice was not given was unaware of the action, suit, investigation, inquiry or proceeding to which the Notice would have related and was prejudiced by the failure to give the Notice, but the omission so to notify such indemnifying party or parties of any such service or notification shall not relieve such indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of such indemnity agreement. Any indemnifying party shall be entitled at its own expense to participate in the defense of any action, suit or proceeding against, or investigation or inquiry of, an indemnified party. Any indemnifying party shall be entitled, if it so elects within a reasonable time after receipt of the Notice by giving written notice (herein called the Notice of Defense) to the indemnified party, to assume (alone or in conjunction with any other indemnifying party or parties) the entire defense of such action, suit, investigation, inquiry or proceeding, in which event such defense shall be conducted, at the expense of the indemnifying party or parties, by counsel chosen by such indemnifying party or parties and reasonably satisfactory to the indemnified party or parties; provided, however, that (i) if the indemnified party or parties reasonably determine that there may be a conflict between the positions of the indemnifying party or parties and of the indemnified party or parties in conducting the defense of such action, suit, investigation, inquiry or proceeding or that there may be legal defenses available to such indemnified party or parties different from or in addition to those available to the indemnifying party or parties, then counsel for the indemnified party or parties shall be entitled to conduct the defense to the extent reasonably determined by such counsel to be necessary to protect the interests of the indemnified party or parties and (ii) in any event, the indemnified party or parties shall be entitled to have counsel chosen by such indemnified party or parties participate in, but not conduct, the defense. If, within a reasonable time after receipt of the Notice, an indemnifying party gives a Notice of Defense and the counsel chosen by the indemnifying party or parties is reasonably satisfactory to the indemnified party or parties, the indemnifying party or parties will not be liable under paragraphs (a) through (c) of this Section 7 for any legal or other expenses subsequently incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding, except that (A) the indemnifying party or parties shall bear the legal and other expenses incurred in connection with the conduct of the defense as referred to in clause (i) of the proviso to the preceding sentence and (B) the indemnifying party or parties shall bear such other expenses as it or they have authorized to be incurred by the indemnified party or parties. If, within a reasonable time after receipt of the Notice, no Notice of Defense has been given, the indemnifying party or parties shall be responsible for any legal or other expenses incurred by the indemnified party or parties in connection with the defense of the action, suit, investigation, inquiry or proceeding.

(d) If the indemnification provided for in this Section 7 is unavailable or insufficient to hold harmless an indemnified party under paragraph (a) or (b) of this Section 7, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or

liabilities referred to in paragraph (a) or (b) of this Section 7 (i) in such proportion as is appropriate to reflect the relative benefits received by each indemnifying party from the offering of the Stock or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of each indemnifying party in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, or actions in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company and Daisytek, taken together, and the Underwriters shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Stock received by the Company and the total underwriting discount received by the Underwriters, as set forth in the table on the cover page of the Prospectus, bear to the aggregate public offering price of the Stock. Relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by each indemnifying party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission.

The parties agree that it would not be just and equitable if contributions pursuant to this paragraph (d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities, or actions in respect thereof, referred to in the first sentence of this paragraph (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigation, preparing to defend or defending against any action or claim which is the subject of this paragraph (d). Notwithstanding the provisions of this paragraph (d), no Underwriter shall be required to contribute any amount in excess of the underwriting discount applicable to the Stock purchased by such Underwriter. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this paragraph (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

Each party entitled to contribution agrees that upon the service of a summons or other initial legal process upon it in any action instituted against it in respect of which contribution may be sought, it will promptly give written notice of such service to the party or parties from whom contribution may be sought, but the omission so to notify such party or parties of any such service shall not relieve the party from whom contribution may be sought from any obligation it may have hereunder or otherwise (except as specifically provided in paragraph (c) of this Section 7).

(e) Neither the Company nor Daisytek will, without the prior written consent of each Underwriter, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not such Underwriter or any person who controls such Underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act is a party to

such claim, action, suit or proceeding) unless such settlement, compromise or consent includes an unconditional release of such Underwriter and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

8. TERMINATION. This Agreement may be terminated by you at any time prior to the Closing Date by giving written notice to the Company if after the date of this Agreement trading in the Common Stock shall have been suspended, or if there shall have occurred (i) the engagement in hostilities or an escalation of major hostilities by the United States or the declaration of war or a national emergency by the United States on or after the date hereof, (ii) any outbreak of hostilities or other national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, calamity, crisis or change in economic or political conditions in the financial markets of the United States would, in the Underwriters' reasonable judgment, make the offering or delivery of the Stock impracticable, (iii) suspension of trading in securities generally or a material adverse decline in value of securities generally on the New York Stock Exchange, the American Stock Exchange, the Nasdaq National Market, or limitations on prices (other than limitations on hours or numbers of days of trading) for securities on either such exchange or system, (iv) the enactment, publication, decree or other promulgation of any federal or state statute, regulation, rule or order of, or commencement of any proceeding or investigation by, any court, legislative body, agency or other governmental authority which in the Underwriters' reasonable opinion materially and adversely affects or will materially or adversely affect the business or operations of the Company, (v) declaration of a banking moratorium by either federal or New York State authorities or (vi) the taking of any action by any federal, state or local government or agency in respect of its monetary or fiscal affairs which in the Underwriters' reasonable opinion has a material adverse effect on the securities markets in the United States. If this Agreement shall be terminated pursuant to this Section 8, there shall be no liability of the Company or Daisytek to the Underwriters and no liability of the Underwriters to the Company or Daisytek; provided, however, that in the event of any such termination the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and Daisytek under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

9. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Stock shall be subject to the performance by the Company of all its obligations to be performed hereunder at or prior to the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and to the following further conditions:

(a) The Registration Statement shall have become effective; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings therefor shall be pending or threatened by the Commission.

(b) The legality and sufficiency of the sale of the Stock hereunder and the validity and form of the certificates representing the Stock, all corporate proceedings and other legal matters incident to the foregoing, and the form of the Registration Statement and of the Prospectus (except as to the financial statements contained therein), shall have

been approved at or prior to the Closing Date by Gibson, Dunn & Crutcher LLP, counsel for the Underwriters.

(c) You shall have received from Wolff & Samson, P.A., counsel for the Company and Daisytek, an opinion, addressed to the Underwriters and dated the Closing Date, covering the matters set forth in Annex A hereto, and if Option Stock is purchased at any date after the Closing Date, an additional opinion from such counsel, addressed to the Underwriters and dated such later date, confirming that the statements expressed as of the Closing Date in such opinion remain valid as of such later date.

(d) You shall be satisfied that (i) as of the Effective Date, the statements made in the Registration Statement and the Prospectus were true and correct and neither the Registration Statement nor the Prospectus omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, respectively, not misleading, (ii) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Prospectus which has not been set forth in such a supplement or amendment, (iii) since the respective dates as of which information is given in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, there has not been any material adverse change or any development involving a prospective material adverse change in or affecting the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, and, since such dates, except in the ordinary course of business, neither the Company nor any of its subsidiaries has entered into any material transaction not referred to in the Registration Statement in the form in which it originally became effective and the Prospectus contained therein, (iv) neither the Company nor any of its subsidiaries has any material contingent obligations which are not disclosed in the Registration Statement and the Prospectus, (v) there are not any pending or known threatened legal proceedings to which the Company or any of its subsidiaries is a party or of which property of the Company or any of its subsidiaries is the subject which are material and which are not disclosed in the Registration Statement and the Prospectus, (vi) there are not any franchises, contracts, leases or other documents which are required to be filed as exhibits to the Registration Statement which have not been filed as required, (vii) the representations and warranties of the Company herein are true and correct in all material respects as of the Closing Date or any later date on which Option Stock is to be purchased, as the case may be, and (viii) there has not been any material change in the market for securities in general or in political, financial or economic conditions from those reasonably foreseeable as to render it impracticable in your reasonable judgment to make a public offering of the Stock, or a material adverse change in market levels for securities in general (or those of companies in particular) or financial or economic conditions which render it inadvisable to proceed.

(e) You shall have received on the Closing Date and on any later date on which Option Stock is purchased a certificate, dated the Closing Date or such later date, as the case may be, and signed by the President and the Chief Financial Officer of the Company, stating that the respective signers of said certificate have carefully examined

the Registration Statement in the form in which it originally became effective and the Prospectus contained therein and any supplements or amendments thereto, and that the statements included in clauses (i) through (vii) of paragraph (d) of this Section 9 are true and correct.

(f) You shall have received from Arthur Andersen LLP, a letter or letters, addressed to the Underwriters and dated the Closing Date and any later date on which Option Stock is purchased, confirming that they are independent public accountants with respect to the Company within the meaning of the Securities Act and the applicable published rules and regulations thereunder and based upon the procedures described in their letter delivered to you concurrently with the execution of this Agreement (herein called the Original Letter), but carried out to a date not more than three business days prior to the Closing Date or such later date on which Option Stock is purchased (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the Original Letter since the date of the Original Letter or to reflect the availability of more recent financial statements, data or information. The letters shall not disclose any change, or any development involving a prospective change, in or affecting the business or properties of the Company or any of its subsidiaries which, in your sole judgment, makes it impractical or inadvisable to proceed with the public offering of the Stock or the purchase of the Option Stock as contemplated by the Prospectus.

(g) You shall have received from Arthur Andersen LLP a letter stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's financial statements as at \_\_\_\_\_, 1999, did not disclose any weakness in internal controls that they considered to be material weaknesses.

(h) You shall have been furnished evidence in usual written or telegraphic form from the appropriate authorities of the several jurisdictions, or other evidence satisfactory to you, of the qualification referred to in paragraph (f) of Section 6 hereof.

(i) Prior to the Closing Date, the Stock to be issued and sold by the Company shall have been duly authorized for listing by the Nasdaq National Market upon official notice of issuance.

(j) On or prior to the Closing Date, you shall have received from all directors, officers, and beneficial holders of more than 5% of the outstanding Common Stock agreements, in form reasonably satisfactory to Hambrecht & Quist LLC, stating that without the prior written consent of Hambrecht & Quist LLC on behalf of the Underwriters, such person or entity will not, for a period of 180 days following the commencement of the public offering of the Stock by the Underwriters, directly or indirectly, (i) sell, offer, contract to sell, make any short sale, pledge, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or



warrant to purchase or otherwise transfer or dispose of any shares of Common Stock or any securities convertible into or exchangeable or exercisable for or any rights to purchase or acquire Common Stock or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences or ownership of Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise.

All the agreements, opinions, certificates and letters mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if Gibson, Dunn & Crutcher LLP, counsel for the Underwriters, shall be satisfied that they comply in form and scope.

In case any of the conditions specified in this Section 9 shall not be fulfilled, this Agreement may be terminated by you by giving notice to the Company. Any such termination shall be without liability of the Company or Daisytek to the Underwriters and without liability of the Underwriters to the Company or Daisytek; provided, however, that (i) in the event of such termination, the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company under this Agreement, including all costs and expenses referred to in paragraphs (i), (j) and (o) of Section 6 hereof, and (ii) if this Agreement is terminated by you because of any refusal, inability or failure on the part of the Company or Daisytek to perform any agreement herein, to fulfill any of the conditions herein, or to comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the transactions contemplated hereby.

10. CONDITIONS OF THE OBLIGATION OF THE COMPANY. The obligation of the Company to deliver the Stock shall be subject to the conditions that (a) the Registration Statement shall have become effective and (b) no stop order suspending the effectiveness thereof shall be in effect and no proceedings therefor shall be pending or threatened by the Commission.

In case either of the conditions specified in this Section 10 shall not be fulfilled, this Agreement may be terminated by the Company by giving notice to you. Any such termination shall be without liability of the Company or Daisytek to the Underwriters and without liability of the Underwriters to the Company or Daisytek; provided, however, that in the event of any such termination the Company agrees to indemnify and hold harmless the Underwriters from all costs or expenses incident to the performance of the obligations of the Company and Daisytek under this Agreement, including all costs and expenses referred to in paragraphs (i) and (j) of Section 6 hereof.

11. REIMBURSEMENT OF CERTAIN EXPENSES. In addition to its other obligations under Section 7 of this Agreement, the Company hereby agrees to reimburse on a quarterly basis the Underwriters for all reasonable legal and other expenses incurred in connection with investigating or defending any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in paragraph (a) of Section 7 of this Agreement, notwithstanding the absence of a judicial

determination as to the propriety and enforceability of the obligations under this Section 11 and the possibility that such payments might later be held to be improper; provided, however, that (i) to the extent any such payment is ultimately held to be improper, the persons receiving such payments shall promptly refund them and (ii) such persons shall provide to the Company, upon request, reasonable assurances of their ability to effect any refund, when and if due.

12. PERSONS ENTITLED TO BENEFIT OF AGREEMENT. This Agreement shall inure to the benefit of Daisytek, the Company and the several Underwriters and, with respect to the provisions of Section 7 hereof, the several parties (in addition to Daisytek, the Company and the several Underwriters) indemnified under the provisions of said Section 7, and their respective personal representatives, successors and assigns. Nothing in this Agreement is intended or shall be construed to give to any other person, firm or corporation any legal or equitable remedy or claim under or in respect of this Agreement or any provision herein contained. The term "successors and assigns" as herein used shall not include any purchaser, as such purchaser, of any of the Stock from any of the several Underwriters.

13. NOTICES. Except as otherwise provided herein, all communications hereunder shall be in writing or by telegraph and, if to the Underwriters, shall be mailed, telegraphed or delivered to Hambrecht & Quist LLC, One Bush Street, San Francisco, California 94104; and if to the Company or Daisytek, shall be mailed, telegraphed or delivered to the Company's office, 500 North Central Expressway, Plano, Texas 75074, Attention: Mark C. Layton. All notices given by telegraph shall be promptly confirmed by letter.

14. MISCELLANEOUS. The reimbursement, indemnification and contribution agreements contained in this Agreement and the representations, warranties and covenants in this Agreement shall remain in full force and effect regardless of (a) any termination of this Agreement, (b) any investigation made by or on behalf of any Underwriter or controlling person thereof, or by or on behalf of the Company or Daisytek or their respective directors or officers, and (c) delivery and payment for the Stock under this Agreement; provided, however, that if this Agreement is terminated prior to the Closing Date, the provisions of paragraph (k) of Section 6 hereof all be of no further force or effect.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of California.

Please sign and return to the Company the enclosed duplicates of this letter, whereupon this letter will become a binding agreement among the Company, Daisytek and the several Underwriters in accordance with its terms.

Very truly yours,

PFSWEB, INC.

By

-----

Name:

Title:

DAISYTEK INTERNATIONAL CORPORATION

By

-----

Name:

Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

HAMBRECHT & QUIST LLC  
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated  
Jefferies & Company, Inc.  
By Hambrecht & Quist LLC

By

-----

Managing Director

Acting on behalf of the several Underwriters,  
including themselves, named in Schedule I hereto.

SCHEDULE I  
UNDERWRITERS

UNDERWRITERS	NUMBER OF SHARES TO BE PURCHASED
-----	-----
Hambrecht & Quist LLC.....	
Dain Rauscher Wessels, a division of Dain Rauscher Incorporated.....	
Jefferies & Company, Inc.....	
Total.....	----- =====

## ANNEX A

MATTERS TO BE COVERED IN THE OPINION OF WOLFF & SAMSON, P.A.  
COUNSEL FOR THE COMPANY AND DAISYTEK

(i) each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, is duly qualified as a foreign corporation and in good standing in each state of the United States of America in which its ownership or leasing of property requires such qualification (except where the failure to be so qualified would not have a material adverse effect on the business, properties, financial condition or results of operations of the Company and its subsidiaries, taken as a whole), and has full corporate power and authority to own or lease its properties and conduct its business as described in the Registration Statement; all the issued and outstanding capital stock of each of the subsidiaries of the Company has been duly authorized and validly issued and is fully paid and nonassessable, and is owned by the Company free and clear of all liens, encumbrances and security interests, and to the best of such counsel's knowledge, no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or ownership interests in such subsidiaries are outstanding; Daisytek has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation;

(ii) the authorized capital stock of the Company consists of 1,000,000 shares of Preferred Stock, \$1.00 par value, of which no shares are outstanding, and 40,000,000 shares of Common Stock, \$0.01 par value, of which there are outstanding (degree) shares (including the Underwritten Stock plus the number of shares of Option Stock issued on the date hereof) and such authorized capital stock conforms to the description thereof contained in the Prospectus; proper corporate proceedings have been taken validly to authorize such authorized capital stock; all of the outstanding shares of such capital stock (including the Underwritten Stock and the shares of Option Stock issued, if any) have been duly and validly issued and are fully paid and nonassessable; any Option Stock purchased after the Closing Date, when issued and delivered to and paid for by the Underwriters as provided in the Underwriting Agreement, will have been duly and validly issued and be fully paid and nonassessable; and no preemptive rights of, or rights of refusal in favor of, stockholders exist with respect to the Stock, or the issue and sale thereof, pursuant to the Certificate of Incorporation or Bylaws of the Company and, to the knowledge of such counsel, there are no contractual preemptive rights that have not been waived, rights of first refusal or right of co-sale which exist with respect to the issue and sale of the Stock;

(iii) the Registration Statement has become effective under the Securities Act and, to the best of such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement or suspending or preventing the use of the Prospectus is in

effect and no proceedings for that purpose have been instituted or are pending or contemplated by the Commission;

(iv) the Registration Statement and the Prospectus (except as to the financial statements and schedules and other financial data contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and with the rules and regulations of the Commission thereunder;

(v) such counsel has no reason to believe that on the Effective Date the Registration Statement (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein, as to which such counsel need not express any opinion or belief) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (except as to the financial statements and schedules and other financial and statistical data contained or incorporated by reference therein, as to which such counsel need not express any opinion or belief) as of its date or at the Closing Date (or any later date on which Option Stock is purchased), contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(vi) the information required to be set forth in the Registration Statement in answer to Items 9, 10 (insofar as it relates to such counsel) and 11(c) of Form S-1 is to the best of such counsel's knowledge accurately and adequately set forth therein in all material respects or no response is required with respect to such Items, and the description of the Company's stock option plans and the options granted and which may be granted thereunder set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to said plans and options to the extent required by the Securities Act and the rules and regulations of the Commission thereunder;

(vii) such counsel do not know of any franchises, contracts, leases, documents or legal proceedings, pending or threatened, which in the opinion of such counsel are of a character required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement, which are not described and filed as required;

(viii) each of the Spin-off Agreements and the Underwriting Agreement has been duly authorized, executed and delivered by the Company and Daisytek and each of the Spin-off Agreements is a valid and binding agreement of the Company and Daisytek enforceable in accordance with its terms;

(ix) the Underwriting Agreement and the issue and sale by the Company of the shares of Stock sold by the Company as contemplated therein and the Spin-off Agreements and the transactions contemplated therein do not and will not conflict with,

or result in a breach of, the Certificate of Incorporation or Bylaws of Daisytek, the Company or any of their subsidiaries or any agreement or instrument known to such counsel to which Daisytek, the Company or any of their subsidiaries is a party or by which any of the properties or assets of Daisytek, the Company or any of their subsidiaries may be bound or affected, or any applicable law or regulation, or so far as is known to such counsel, any order, writ, injunction or decree, of any jurisdiction, court or governmental instrumentality;

(x) there are no holders of securities of the Company having rights to the registration of shares of Common Stock, or other securities, because of the filing of the Registration Statement by the Company, that have not waived such rights, or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement;

(xi) no consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated in the Underwriting Agreement, except such as have been obtained under the Securities Act and such as may be required under state securities or blue sky laws in connection with the purchase and distribution of the Stock by the Underwriters, or for the transactions contemplated in the Spin-off Agreements; and

(xii) the Stock issued and sold by the Company is duly authorized for listing by the Nasdaq National Market.

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
PFSWEB, INC.

(Pursuant to Section 245 of the General  
Corporation Law of the State of Delaware)

PFSWEB, INC., a corporation organized and existing under the  
General Corporation Law of the State of Delaware, does hereby certify as  
follows:

1. The name of the corporation is PFSweb, Inc. (the  
"Corporation").

2. The date of filing the original Certificate of  
Incorporation of the Corporation with the Secretary of State of the State of  
Delaware was June 28, 1999.

3. This Amended and Restated Certificate of Incorporation  
amends and restates the provisions of the Certificate of Incorporation of the  
Corporation, as amended, and was duly adopted by the written consent of the  
sole stockholder of the Corporation entitled to vote thereon in accordance with  
the provisions of Sections 228, 242 and 245 of the General Corporation Law of  
the State of Delaware (the "GCL").

4. The Certificate of Incorporation of the Corporation, as  
amended and restated hereby, shall, upon its filing with the Secretary of State  
of the State of Delaware, read in its entirety as follows:

FIRST: The name of the corporation is PFSweb, Inc. (the  
"Corporation").

SECOND: The registered office of the Corporation in the State  
of Delaware is located at 1013 Centre Road, Wilmington, County of New Castle,  
Delaware 19805. The name of the registered agent of the Corporation at such  
address is Corporation Service Company.

THIRD: The purpose of the Corporation and the nature and  
objects of the business to be transacted, promoted, and carried on are to  
engage in any lawful act or activity for which corporations may be organized  
under the General Corporation Law of Delaware.

FOURTH: The total number of shares of stock which the  
Corporation shall have authority to issue is 41,000,000 shares, divided into  
two classes as follows: (i) 1,000,000 shares of Preferred Stock, par value  
\$1.00 per share ("Preferred Stock"); and (ii) 40,000,000 shares of Common  
Stock, par value \$.001 per share ("Common Stock").

Upon the filing of this Amended and Restated Certificate of  
Incorporation, all previously issued and outstanding shares of common stock,  
\$.01 par value, of the Corporation shall be automatically converted into an  
equal number of shares of Common Stock, par value \$.001 per share, of the  
Corporation.



The designations and the powers, preferences, rights, qualifications, limitations, and restrictions of the Preferred Stock and the Common Stock of the Corporation are as follows:

A. Provisions Relating to the Preferred Stock.

1. The Preferred Stock may be issued from time to time in one or more classes or series, the shares of each class or series to have such designations and powers, preferences, and rights, and qualifications, limitations, and restrictions thereof as are stated and expressed herein and in the resolution or resolutions providing for the issuance of such class or series adopted by the board of directors of the Corporation as hereafter prescribed.

2. Authority is hereby expressly granted to and vested in the board of directors of the Corporation to authorize the issuance of the Preferred Stock from time to time in one or more classes or series, and with respect to each such class or series of the Preferred Stock, to fix and state by the resolution or resolutions from time to time adopted providing for the issuance thereof the following:

(i) whether or not such class or series is to have voting rights, full, special, or limited, or is to be without voting rights, and whether or not such class or series is to be entitled to vote as a separate class either alone or together with the holders of one or more other classes or series of stock;

(ii) the number of shares to constitute such class or series and the designations thereof;

(iii) the preferences, and relative, participating, optional, or other special rights, if any, and the qualifications, limitations, or restrictions thereof, if any, with respect to any such class or series;

(iv) whether or not the shares of any such class or series shall be redeemable at the option of the Corporation or the holders thereof or upon the happening of any specified event, and, if redeemable, the redemption price or prices (which may be payable in the form of cash, notes, securities, or other property), and the time or times at which, and the terms and conditions upon which, such shares shall be redeemable and the manner of redemption;

(v) whether or not the shares of such class or series shall be subject to the operation of retirement or sinking funds to be applied to the purchase or redemption of such shares for retirement, and, if such retirement or sinking fund or funds are to be established, the annual amount thereof, and the terms and provisions relative to the operation thereof;

(vi) the dividend rate, whether dividends are payable in cash, stock of the Corporation, or other property, or a combination thereof, the conditions upon which and the

times when such dividends are payable, the preference to or the relation to the payment of dividends payable on any other class or classes or series of stock, whether such dividends shall be cumulative or noncumulative, and if cumulative, the date or dates from which such dividends shall accumulate;

(vii) the preferences, if any, and the amounts thereof which the holders of any such class or series shall be entitled to receive upon the voluntary and involuntary dissolution of, or upon any distribution of the assets of, the Corporation;

(viii) whether or not the shares of any such class or series, at the option of the Corporation or the holder thereof or upon the happening of any specified event, shall be convertible into or exchangeable for the shares of any other class or classes or of any other series of the same or any other class or classes of stock, securities, or other property of the Corporation and the conversion price or prices or ratio or ratios or the rate or rates at which such exchange may be made, with such adjustments, if any, as shall be stated and expressed or provided for in such resolution or resolutions; and

(ix) such other special rights and provisions with respect to any such class or series as may to the board of directors of the Corporation seem advisable.

3. The shares of each class or series of the Preferred Stock may vary from the shares of any other class or series thereof in any or all of the foregoing respects. The board of directors of the Corporation may increase the number of shares of Preferred Stock designated for any existing class or series by a resolution adding to such class or series authorized and unissued shares of the Preferred Stock not designated for any other class or series. The board of directors of the Corporation may decrease the number of shares of the Preferred Stock designated for any existing class or series by a resolution, subtracting from such series unissued shares of the Preferred Stock designated for such class or series, and the shares so subtracted shall become authorized, unissued, and undesignated shares of the Preferred Stock.

#### B. Provisions Relating to the Common Stock.

1. Each holder of Common Stock shall be entitled to one vote for each share of Common Stock standing in such holder's name on the records of the Corporation on each matter submitted to a vote of the stockholders.

2. Subject to the rights of the holders of the Preferred Stock, the holders of the Common Stock shall be entitled to receive when, as, and if declared by the board of directors of the Corporation, out of funds legally available therefor, dividends payable in cash, stock or otherwise.

3. Upon any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock and the holders of any bonds, debentures, or other obligations of the Corporation shall have been paid in full the amounts to which they shall be entitled (if any), or a sum sufficient for such payment in full shall have been set aside, the

remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of the Preferred Stock and any bonds, debentures, or other obligations of the Corporation.

C. General.

1. Subject to the foregoing provisions of this Certificate of Incorporation, the Corporation may issue shares of its Preferred Stock and Common Stock from time to time for such consideration (in any form, but not less in value than the par value thereof) as may be fixed by the board of directors of the Corporation, which is expressly authorized to fix the same in its absolute and uncontrolled discretion subject to the foregoing conditions. Shares so issued for which the consideration shall have been paid or delivered to the Corporation shall be deemed fully paid stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments in respect of such shares.

2. The Corporation shall have authority to create and issue rights and options entitling their holders to purchase or otherwise acquire shares of the Corporation's capital stock of any class or series or other securities of the Corporation, and such rights and options shall be evidenced by instrument(s) approved by the board of directors of the Corporation or any committee thereof. The board of directors of the Corporation or any committee thereof shall be empowered to set the exercise price, duration, times for exercise, and other terms of such options or rights; provided, however, that the consideration to be received (which may be in any form) for any shares of capital stock subject thereto shall have a value not less than the par value thereof.

FIFTH: No contract or transaction between the Corporation and one or more of its directors, officers, or stockholders or between the Corporation and any person (as used herein "person" means any other corporation, partnership, association, firm, trust, joint venture, political subdivision, or instrumentality) or other organization in which one or more of its directors, officers, or stockholders are directors, officers, or stockholders, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee which authorizes the contract or transaction, or solely because his, her or their votes are counted for such purpose, if: (i) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved, or ratified by the board of directors, a committee thereof (to the extent permitted by applicable law), or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee which authorizes the contract or transaction.

SIXTH: 1. To the extent not prohibited by law, the Corporation shall indemnify any person who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the Corporation, or is or was serving in any capacity at the request of the Corporation for any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (an "Other Entity"), against judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees and disbursements). Persons who are not directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board of Directors at any time specifies that such persons are entitled to the benefits of this Article.

1. The Corporation shall, from time to time, reimburse or advance to any director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys' fees and disbursements, incurred in connection with any Proceeding, in advance of the final disposition of such Proceeding; provided, however, that, if required by the GCL, such expenses incurred by or on behalf of any director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the Corporation of an undertaking, by or on behalf of such director or officer (or other person indemnified hereunder), to repay any such amount so advanced, if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such director, officer or other person is not entitled to be indemnified for such expenses.

2. The rights to indemnification, and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article shall not be deemed exclusive of any other rights to which a person seeking indemnification or reimbursement or advancement of expenses may have or hereafter be entitled under any statute, this Amended and Restated Certificate of Incorporation, the By-laws of the Corporation, any agreement, any vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

3. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article shall continue as to a person who has ceased to be a director or officer (or other person indemnified hereunder) and shall inure to the benefit of the executors, administrators, legatees and distributees of such person.

4. The Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of an Other Entity, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the

power to indemnify such person against such liability under the provisions of this Article, the By-laws or under Section 145 of the GCL or any other provision of law.

5. The provisions of this Article shall be a contract between the Corporation, on the one hand, and each director and officer who serves in such capacity at any time while this Article is in effect and any other person indemnified hereunder, on the other hand, pursuant to which the Corporation and each such director, officer, or other person intend to be legally bound. No repeal or modification of this Article shall affect any rights or obligations with respect to any state of facts then or theretofore existing or thereafter arising or any proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such state of facts.

6. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article shall be enforceable by any person entitled to such indemnification or reimbursement or advancement of expenses in any court of competent jurisdiction. The burden of proving that such indemnification or reimbursement or advancement of expenses is not appropriate shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) to have made a determination prior to the commencement of such action that such indemnification or reimbursement or advancement of expenses is proper in the circumstances nor an actual determination by the Corporation (including its Board of Directors, its independent legal counsel and its stockholders) that such person is not entitled to such indemnification or reimbursement or advancement of expenses shall constitute a defense to the action or create a presumption that such person is not so entitled. Such a person shall also be indemnified for any expenses incurred in connection with successfully establishing his or her right to such indemnification or reimbursement or advancement of expenses, in whole or in part, in any such proceeding.

7. Any director or officer of the Corporation serving in any capacity for (a) another corporation of which a majority of the shares entitled to vote in the election of its directors is held, directly or indirectly, by the Corporation or (b) any employee benefit plan of the Corporation or any corporation referred to in clause (a) shall be deemed to be doing so at the request of the Corporation.

8. Any person entitled to be indemnified or to reimbursement or advancement of expenses as a matter of right pursuant to this Article may elect to have the right to indemnification or reimbursement or advancement of expenses interpreted on the basis of the applicable law in effect at the time of the occurrence of the event or events giving rise to the applicable Proceeding, to the extent permitted by law, or on the basis of the applicable law in effect at the time such indemnification or reimbursement or advancement of expenses is sought. Such election shall be made, by a notice in writing to the Corporation, at the time indemnification or reimbursement or advancement of expenses is sought; provided, however, that if no such notice is given, the right to indemnification or reimbursement or advancement of expenses shall be determined by the law in effect at the time indemnification or reimbursement or advancement of expenses is sought.

SEVENTH: All the powers of the Corporation, insofar as the same may be lawfully vested by this Amended and Restated Certificate of Incorporation in the board of directors, are hereby conferred upon the board of directors. In furtherance and not in limitation of that power, the board of directors shall have the power, upon the affirmative vote of a majority of the Classified Directors (as hereinafter defined) at a meeting lawfully convened, to make, adopt, alter, amend, and repeal from time to time the Bylaws of the Corporation and to make from time to time new Bylaws of the Corporation, subject to the right of the stockholders entitled to vote thereon to adopt, alter, amend, and repeal Bylaws made by the board of directors or to make new Bylaws; provided, however, that the stockholders of the Corporation shall be entitled to adopt, alter, amend, or repeal Bylaws made by the board of directors or to make new Bylaws solely upon the affirmative vote of the holders of at least seventy five percent (75%) of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon.

EIGHTH: Except for the provisions of Article SIXTH and NINTH herein, the Corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of incorporation in the manner now or hereafter prescribed by law and all rights conferred on officers, directors, and stockholders herein are granted subject to this reservation.

NINTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the GCL, or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or amendment of this Article NINTH by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation arising from an act or omission occurring prior to the time of such repeal or amendment. In addition to the circumstances in which a director of the Corporation is not personally liable as set forth in the foregoing provisions of this Article NINTH, a director shall not be liable to the Corporation or its stockholders to such further extent as permitted by any law hereafter enacted, including without limitation any subsequent amendment to the GCL.

TENTH: 1. The number of directors constituting the board of directors shall be fixed by the board of directors of the Corporation, provided that such number shall be no fewer than three and no more than ten (plus such number of directors as may be elected from time to time pursuant to the terms of any series of Preferred Stock that may be issued and outstanding from time to time). The directors of the Corporation (exclusive of directors who are elected pursuant to the terms of, and serve as representatives of the holders of, any series of Preferred Stock) shall be referred to herein as "Classified Directors" and shall be divided into three classes, with the first class referred to herein as "Class I," the second class as "Class II," and the third class as "Class III." Each class shall consist as nearly as possible of one-third (1/3) of the total number of directors making up the entire board of directors. The term of office of the initial Class I directors shall expire at the 2000 annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the 2001 annual meeting of stockholders, and the term of office of the initial Class III directors shall expire at the 2002 annual meeting of stockholders, with each director to hold office until his successor shall have been duly

elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his successor shall have been duly elected and qualified.

1. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by series or by class (excluding holders of Common Stock), to elect directors, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of this Amended and Restated Certificate of Incorporation (including any amendment to this Amended and Restated Certificate of Incorporation that designates a series of Preferred Stock), and such directors so elected by the holders of Preferred Stock shall not be divided into classes pursuant to this Article TENTH unless expressly provided by such terms.

2. Any or all Classified Directors may be removed only with cause, at any annual or special meeting of stockholders, upon the affirmative vote of the holders of a majority of the outstanding shares of each class of capital stock of the Corporation then entitled to vote in person or by proxy at an election of such Classified Directors, provided that notice of the intention to act upon such matter shall have been given in the notice calling such meeting. Unless otherwise provided by the terms of the certificate of incorporation (including any amendment thereto that designates a series of preferred stock) any vacancies occurring in the board of directors caused by an increase in the number of Classified Directors, or the death, resignation, retirement, disqualification, removal or other termination from office of any Classified Director may be filled by the vote of a majority of the Classified Directors then in office, though less than a quorum, or by the affirmative vote, at any annual meeting or any special meeting of the stockholders called for the purpose of filling such directorship, of the holders of a majority of the outstanding shares of each class of capital stock then entitled to vote in person or by proxy at an election of such directors. Each successor director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his respective successor shall have been duly elected and qualified.

3. Election of directors, whether Classified Directors or otherwise, need not be by written ballot.

ELEVENTH: The Corporation expressly elects to be governed by Section 203 of the GCL.

TWELFTH: Special meetings of stockholders of the Corporation may be called by the board of directors pursuant to a resolution adopted by a majority of the Classified Directors then serving or by the Chairman of the board of directors.

THIRTEENTH: Notwithstanding any other provisions of this Amended and Restated Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, the affirmative vote of the holders of at least seventy five percent (75%) of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon shall be required to

amend, alter, or repeal any one or more of Articles of this Amended and Restated Certificate of Incorporation.

IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation to be executed and attested as of the \_\_\_\_ day of November, 1999.

PFSWEB, INC.

By: -----  
Thomas J. Madden, Vice President

ATTEST:

-----  
Harvey H. Achatz, Secretary



AMENDED  
AND  
RESTATED  
BYLAWS  
OF  
PFSWEB, INC.  
A Delaware Corporation

## AMENDED AND RESTATED

## BYLAWS

## OF

## PFSWEB, INC.

## A Delaware Corporation

## PREAMBLE

These Amended and Restated Bylaws are subject to, and governed by, the General Corporation Law of the State of Delaware (the "Delaware Corporation Law") and the Certificate of Incorporation of PFSweb, Inc., a Delaware corporation (the "Corporation"), as amended, restated, modified or otherwise in effect from time to time (the "certificate of incorporation"). In the event of a direct conflict between the provisions of these Bylaws and the mandatory provisions of the Delaware Corporation Law or the provisions of the certificate of incorporation of the Corporation, such provisions of the Delaware Corporation Law or the certificate of incorporation of the Corporation, as the case may be, will be controlling.

ARTICLE ONE:  
OFFICES

1.1 Registered Office and Agent. The registered office and registered agent of the Corporation shall be as designated from time to time by the appropriate filing by the Corporation in the office of the Secretary of State of the State of Delaware.

1.2 Other Offices. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the board of directors may from time to time determine or as the business of the Corporation may require.

ARTICLE TWO:  
MEETINGS OF STOCKHOLDERS

2.1 Annual Meeting. An annual meeting of stockholders of the Corporation shall be held each calendar year on such date and at such time as shall be designated from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting. At such meeting, the stockholders shall elect directors and transact such other business as may be properly brought before the meeting.

2.2 Special Meeting. A special meeting of the stockholders may be called by the board of directors pursuant to a resolution adopted by a majority of the Classified Directors (as hereinafter defined) then serving or by the Chairman of the Board. A special meeting shall be held on such date and at such time as shall be designated by the person(s) calling the meeting and stated in the notice of the meeting or in a duly executed waiver of notice of such meeting.

Only such business shall be transacted at a special meeting as may be stated or indicated in the notice of such meeting given in accordance with these Bylaws or in a duly executed waiver of notice of such meeting.

2.3 Place of Meetings. An annual meeting of stockholders may be held at any place within or without the State of Delaware designated by the board of directors. A special meeting of stockholders may be held at any place within or without the State of Delaware designated in the notice of the meeting or a duly executed waiver notice of such meeting. Meetings of stockholders shall be held at the principal office of the Corporation unless another place is designated for meetings in the manner provided herein.

2.4 Notice. Written or printed notice stating the place, day, and time of each meeting of the stockholders and, in case of a special meeting, the purpose or purposes for which the meeting is called shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary, or the officer or person(s) calling the meeting, to each stockholder of record entitled to vote at such meeting. If such notice is to be sent by mail, it shall be directed to such stockholder at his address as it appears on the records of the Corporation, unless he shall have filed with the Secretary of the Corporation a written request that notices to him be mailed to some other address, in which case it shall be directed to him at such other address. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy and shall not, at the beginning of such meeting, object to the transaction of any business because the meeting is not lawfully called or convened, or who shall, either before or after the meeting, submit a signed waiver of notice, in person or by proxy.

2.5 Notice of Stockholder Business; Nomination of Director Candidates.

(a) At annual or special meetings of the stockholders, only such business shall be conducted as shall have been brought before meetings (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the board of directors, or (iii) by any stockholder of the Corporation who (1) is a stockholder of record at the time of giving of notice provided for in this Section 2.5, (2) shall be entitled to vote at such meeting, and (3) complies with the notice procedures set forth in this Section 2.5.

(b) Only persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible to serve as directors. Nominations of persons for election to the board of directors may be made at an annual or special meeting of stockholders (i) by or at the direction of the board of directors, (ii) by any stockholder of the Corporation who (1) is a stockholder of record at the time of giving of notice provided for in this Section 2.5, (2) meets the requirements set forth in Section 2.2 above, (3) shall be entitled to vote at such meeting, and (4) complies with the notice procedures set forth in this Section 2.5.

(c) A stockholder must give timely, written notice to the Secretary of the Corporation to nominate directors at an annual or special meeting pursuant to Section 2.5(b) hereof or to propose business to be brought before an annual or special meeting pursuant to clause (iii) of Section 2.5(a) hereof. To be timely in the case of an annual meeting, a

stockholder's notice must be received at the principal executive offices of the Corporation not less than 90 days before the first anniversary of the preceding year's annual meeting. To be timely in the case of a special meeting or in the event that the date of the annual meeting is changed by more than 30 days from such anniversary date, a stockholder's notice must be received at the principal executive offices of the Corporation no later than the close of business on the tenth day following the earlier of the day on which notice of the meeting date was mailed or public disclosure of the meeting date was made. Such stockholder's notice shall set forth (i) with respect to each matter, if any, that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) with respect to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director, all information relating to such person (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director) that is required under the Securities Exchange Act of 1934, as amended, (iii) the name and address, as they appear on the Corporation's records, of the stockholder proposing such business or nominating such persons (as the case may be), and the name and address of the beneficial owner, if any, on whose behalf the proposal or nomination is made, (iv) the class and number of shares of capital stock of the Corporation that are owned beneficially and of record by such stockholder of record and by the beneficial owner, if any, on whose behalf the proposal or nomination is made, and (v) any material interest or relationship that such stockholder of record and/or the beneficial owner, if any, on whose behalf the proposal or nomination is made may respectively have in such business or with such nominee. At the request of the board of directors, any person nominated for election as a director shall furnish to the Secretary of the Corporation the information required to be set forth in a stockholder's notice of nomination which pertains to the nominee.

(d) Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted, and no person shall be nominated to serve as a director, at an annual or special meeting of stockholders, except in accordance with the procedures set forth in this Section 2.5 and elsewhere in these Bylaws. The chairman of the meeting shall, if the facts warrant, determine that business was not properly brought before the meeting, or that a nomination was not made, in accordance with the procedures prescribed by these Bylaws and, if he shall so determine, he shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted and any defective nomination shall be disregarded. Notwithstanding the foregoing provisions of these Bylaws, a stockholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section 2.5.

2.6 Voting List. Prior to each meeting of stockholders, the Secretary or other officer of the Corporation who has charge of the Corporation's stock ledger, either directly or through another officer appointed by him or through a transfer agent appointed by the board of directors, shall prepare a complete list of stockholders entitled to vote thereat, arranged in alphabetical order and showing the address of each stockholder and number of shares of capital stock registered in the name of each stockholder. To the extent required by law, such list shall be kept on file at a place within the city where the meeting is to be held, which place shall be specified in the notice of meeting or a duly executed waiver of notice of such meeting or, if not so specified, at the place where the meeting is to be held and shall be open to examination by any

stockholder during ordinary business hours. Such list shall be produced at such meeting and kept at the meeting at all times during such meeting and may be inspected by any stockholder who is present.

2.7 Quorum. The holders of a majority of the outstanding shares of capital stock entitled to vote on a matter, present in person or by proxy, shall constitute a quorum at any meeting of stockholders, except as otherwise provided by law, the certificate of incorporation of the Corporation, or these Bylaws. If a quorum shall not be present, in person or by proxy, at any meeting of stockholders, the stockholders entitled to vote thereat who are present, in person or by proxy (or, if no stockholder entitled to vote is present, any officer of the Corporation), may adjourn the meeting from time to time without notice other than announcement at the meeting (unless the board of directors, after such adjournment, fixes a new record date for the adjourned meeting), until a quorum shall be present, in person or by proxy. At any adjourned meeting at which a quorum shall be present, in person or by proxy, any business may be transacted which may have been transacted at the original meeting had a quorum been present; provided that, if the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

2.8 Required Vote; Withdrawal of Quorum. When a quorum is present at any meeting, the vote of the holders of a least a majority of the outstanding shares of capital stock entitled to vote thereat who are present, in person or by proxy, shall decide any question brought before such meeting, unless the question is one on which, by express provision of law, the certificate of incorporation of the Corporation, or these Bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such question. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

2.9 Method of Voting; Proxies. Except as otherwise provided in the certificate of incorporation of the Corporation or by law, each outstanding share of capital stock, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. Elections of directors need not be by written ballot. At any meeting of stockholders, every stockholder having the right to vote may vote either in person or by a proxy executed in writing by the stockholder or by his duly authorized attorney-in-fact. Each such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting. No proxy shall be valid after three years from the date of its execution, unless otherwise provided in the proxy. If no date is stated in a proxy, such proxy shall be presumed to have been executed on the date of the meeting at which it is to be voted. Each proxy shall be revocable unless expressly provided therein to be irrevocable and coupled with an interest sufficient in law to support an irrevocable power or unless otherwise made irrevocable by law.

2.10 Record Date. For the purpose of determining stockholders entitled (a) to notice of or to vote at any meeting of stockholders or any adjournment thereof, (b) to receive payment of any dividend or other distribution or allotment of any rights, or (c) to exercise any rights in respect of any change, conversion, or exchange of stock or for the purpose of any other

lawful action, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, for any such determination of stockholders, such date in any case to be not more than 60 days and not less than ten days prior to such meeting nor more than 60 days prior to any other action. If no record date is fixed:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(iii) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.11 Conduct of Meeting. The Chairman of the Board, if such office has been filled, and, if not or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer, if such office has been filled, and, if not or if the Chief Executive Officer is absent or otherwise unable to act, the President shall preside at all meetings of stockholders. The Secretary shall keep the records of each meeting of stockholders. In the absence or inability to act of any such officer, such officer's duties shall be performed by the officer given the authority to act for such absent or non-acting officer under these Bylaws or by some person appointed by the meeting.

2.12 Inspectors. The board of directors may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If any of the inspectors so appointed shall fail to appear or act, the chairman of the meeting shall, or if inspectors shall not have been appointed, the chairman of the meeting may, appoint one or more inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares of capital stock of the Corporation outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxies and shall receive votes, ballots, or consents, hear and determine all challenges and questions arising in connection with the right to vote, count, and tabulate all votes, ballots, or consents, determine the results, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting, the inspectors shall make a report in writing of any challenge, request, or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as an inspector of an election of directors. Inspectors need not be stockholders.

ARTICLE THREE:  
DIRECTORS

3.1 Management. The business and property of the Corporation shall be managed by the board of directors. Subject to the restrictions imposed by law, the certificate of incorporation of the Corporation, or these Bylaws, the board of directors may exercise all the powers of the Corporation.

3.2 Number; Qualification; Election; Term. The number of directors constituting the board of directors shall be fixed by the board of directors, provided that such number shall be no fewer than three and no more than ten (plus such number of directors as may be elected from time to time pursuant to the terms of any series of Preferred Stock that may be issued and outstanding from time to time). The directors of the Corporation (exclusive of directors who are elected pursuant to the terms of, and serve as representatives of the holders of, any series of Preferred Stock) shall be referred to herein as "Classified Directors" and shall be divided into three classes, with the first class referred to herein as "Class I," the second class as "Class II," and the third class as "Class III." Each class shall consist as nearly as possible of one-third (1/3) of the total number of directors making up the entire board of directors. The term of office of the initial Class I directors shall expire at the 2000 annual meeting of stockholders, the term of office of the initial Class II directors shall expire at the 2001 annual meeting of stockholders, and the term of office of the initial Class III directors shall expire at the 2002 annual meeting of stockholders, with each director to hold office until his successor shall have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election, with each director to hold office until his successor shall have been duly elected and qualified.

Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by the Corporation shall have the right, voting separately by series or by class (excluding holders of common stock), to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies, and other features of such directorships shall be governed by the terms of the certificate of incorporation (including any amendment to the certificate of incorporation that designates a series of preferred stock).

3.3 Change in Number. No decrease in the number of directors constituting the entire board of directors shall have the effect of shortening the term of any incumbent director.

3.4 Removal; Vacancies. Unless otherwise provided by the terms of the certificate of incorporation (including any amendment thereto that designates a series of preferred stock), any or all Classified Directors may be removed with cause, at any annual or special meeting of stockholders, upon the affirmative vote of the holders of a majority of the outstanding shares of each class of capital stock then entitled to vote in person or by proxy at an election of such directors, provided that notice of the intention to act upon such matter shall have been given in the notice calling such meeting. Unless otherwise provided by the terms of the certificate of incorporation (including any amendment thereto that designates a series of

preferred stock), any vacancies occurring in the board of directors caused by an increase in the number of Classified Directors or the death, resignation, retirement, disqualification, removal or other termination from office of any Classified Directors may be filled by the vote of a majority of the Classified Directors then in office, though less than a quorum, or by the affirmative vote, at any annual meeting or any special meeting of the stockholders called for the purpose of filling such directorship, of the holders of a majority of the outstanding shares of each class of capital stock then entitled to vote in person or by proxy at an election of such directors. Each successor director so chosen shall hold office until the next election of the class for which such director shall have been chosen and until his respective successor shall have been duly elected and qualified.

3.5 Meetings of Directors. The directors may hold their meetings and may have an office and keep the records of the Corporation, except as otherwise provided by law, in such place or places within or without the State of Delaware as the board of directors may from time to time determine or as shall be specified in the notice of such meeting or duly executed waiver of notice of such meeting.

3.6. First Meeting. Each newly elected board of directors may hold its first meeting for the purpose of organization and the transaction of business, if a quorum is present, immediately after and at the same place as the annual meeting of stockholders, and no notice of such meeting shall be necessary.

3.7 Election of Officers. At the first meeting of the board of directors after each annual meeting of stockholders at which a quorum shall be present, the board of directors shall elect the officers of the Corporation.

3.8 Regular Meetings. Regular meetings of the board of directors shall be held at such times and places as shall be designated from time to time by resolution of the board of directors. Notice of such regular meetings shall not be required.

3.9 Special Meetings. Special meetings of the board of directors shall be held whenever called by the Chairman of the Board, the Chief Executive Officer, the President, or any director.

3.10 Notice. The Secretary shall give notice of each special meeting to each director at least 24 hours before the meeting. Notice of any such meeting need not be given to any director who, either before or after the meeting, submits a signed waiver of notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to him. The purpose of any special meeting shall be specified in the notice or waiver of notice of such meeting.

3.11 Quorum; Majority Vote. At all meetings of the board of directors, a majority of the directors fixed in the manner provided in these Bylaws shall constitute a quorum for the transaction of business. If at any meeting of the board of directors there is less than a quorum present, a majority of those present or any director solely present may adjourn the meeting from time to time without further notice. Unless the act of a greater number is required



by law, the certificate of incorporation of the Corporation, or these Bylaws, the act of a majority of the directors present at a meeting at which a quorum is in attendance shall be the act of the board of directors. At any time that the certificate of incorporation of the Corporation provides that directors elected by the holders of a class or series of stock shall have more or less than one vote per director on any matter, every reference in these Bylaws to a majority or other proportion of directors shall refer to a majority or other proportion of the votes of such directors.

3.12 Procedure. At meetings of the board of directors, business shall be transacted in such order as from time to time the board of directors may determine. The Chairman of the Board, if such office has been filled, and, if not or if the Chairman of the Board is absent or otherwise unable to act, the Chief Executive Officer, if such office has been filled, and, if not or if the Chief Executive Officer is absent or otherwise unable to act, the President shall preside at all meetings of the board of directors. In the absence or inability to act of either such officer, a chairman shall be chosen by the board of directors from among the directors present. The Secretary of the Corporation shall act as the secretary of each meeting of the board of directors unless the board of directors appoints another person to act as secretary of the meeting. The board of directors shall keep regular minutes of its proceedings which shall be placed in the minute book of the Corporation.

3.13 Presumption of Assent. A director of the Corporation who is present at the meeting of the board of directors at which action on any corporate matter is taken shall be presumed to have assented to the action unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as secretary of the meeting before the adjournment thereof or shall forward any dissent by certified or registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

3.14 Compensation. The board of directors shall have the authority to fix the compensation, including fees and reimbursement of expenses, paid to directors for attendance at regular or special meetings of the board of directors or any committee thereof; provided, that nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity or receiving compensation therefor.

ARTICLE FOUR:  
COMMITTEES

4.1 Designation. The board of directors may, by resolution adopted by a majority of the entire board of directors, designate one or more committees, including without limitation an Executive Committee, Audit Committee and Compensation Committee as hereinafter described.

4.2 Number; Qualification; Term. Each committee shall consist of one or more directors appointed by resolution adopted by a majority of the entire board of directors. The number of committee members may be increased or decreased from time to time by resolution adopted by a majority of the entire board of directors. Each committee member shall serve as

such until the earliest of (i) the expiration of his term as director, (ii) his resignation as a committee member or as a director, or (iii) his removal as a committee member or as a director.

4.3 Authority. Each committee, to the extent expressly provided in the resolution establishing such committee, shall have and may exercise all of the authority of the board of directors in the management of the business and the property of the Corporation except to the extent expressly restricted by such resolution or by law, the certificate of incorporation of the Corporation, or these Bylaws.

4.4 Committee Changes. The board of directors shall have the power at any time to fill vacancies in, to change the membership of, and to discharge any committee.

4.5 Alternate Members of Committees. The board of directors may designate one or more directors as alternate members of any committee. Any such alternate member may replace any absent or disqualified member at any meeting of the committee. If no alternate committee members have been so appointed to a committee or each such alternate committee member is absent or disqualified, the member or members of such committee present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member.

4.6 Regular Meetings. Regular meetings of any committee may be held without notice at such time and place as may be designated from time to time by the committee and communicated to all members thereof.

4.7 Special Meetings. Special meetings of any committee may be held whenever called by any committee member. The committee member calling any special meeting shall cause notice of such special meeting, including therein the time and place of such special meeting, to be given to each committee member at least two days before such special meeting. Neither the business to be transacted at, nor the purpose of, any special meeting of any committee need be specified in the notice or waiver of notice of any special meeting.

4.8 Quorum; Majority Vote. At meetings of any committee, a majority of the number of members designated by the board of directors shall constitute a quorum for the transaction of business. If a quorum is not present at a meeting of any committee, a majority of the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present. The act of a majority of the members present at any meeting at which a quorum is in attendance shall be the act of a committee, unless the act of a greater number is required by law, the certificate of incorporation of the Corporation, or these Bylaws.

4.9 Minutes. Each committee shall cause minutes of its proceedings to be prepared and shall report the same to the board of directors upon the request of the board of directors. The minutes of the proceedings of each committee shall be delivered to the Secretary of the Corporation for placement in the minute books of the Corporation.

4.10 Compensation. Committee members may, by resolution of the board of directors, be allowed a fixed sum and expenses of attendance, if any, for attending any committee meetings or a stated salary.

4.11 Responsibility. The designation of any committee and the delegation of authority to it shall not operate to relieve the board of directors or any director of any responsibility imposed upon it or such director by law.

4.12 Executive Committee. The board of directors may, by resolution, designate one or more of its members to constitute an Executive Committee. The Executive Committee shall have and may exercise all of the authority of the board in the management of the business and affairs of the Corporation within the limits permitted by law, including without limitation, the power and authority of the board: (i) to authorize the seal of the Corporation to be affixed to all papers; (ii) to declare a dividend; (iii) to authorize the issuance of stock; (iv) to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware Corporation Law; and (v) to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board, to fix any of the preference rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the Corporation or the conversion into, or the exchange of shares for, shares of any other class or classes or any other series of the same of any other class or classes of stock of the Corporation.

4.13 Audit Committee. The board of directors may, by resolution, designate not less than two of the directors then in office to constitute an Audit Committee. At least a majority of such directors must be independent of management and free from any relationship that, in the opinion of the board, would interfere with such directors' exercise of independent judgment as a committee member. The Audit Committee, if established, shall (i) consider and make recommendations to the board with respect to the employment of a firm of independent public accountants, (ii) confer with the Corporation's independent public accountants to determine the scope of the audit that such accountants will perform, (iii) receive reports from the independent public accountants and transmit such reports to the board, and after the close of the fiscal year, transmit to the board the financial statements certified by such accountants, (iv) inquire into, examine and make comments on the accounting procedures of the Corporation and the reports of the independent public accountants, and (v) consider and make recommendations to the board upon matters presented to it by the officers of the Corporation pertaining to the audit practices and procedures adhered to by the Corporation. The board may designate one member of the Audit Committee to act as its chairman.

4.14 Compensation Committee. The board of directors may, by resolution, designate not less than two of the directors then in office to constitute a Compensation Committee, at least one of which shall be independent of management so as to exercise independent judgment as a committee member. The Compensation Committee may exercise all of the authority of the board in administering the Corporation's executive compensation plans, including stock option plans.

4.15 Other Committees. In addition to the Executive Committee, the Audit Committee and the Compensation Committee, the board of directors may, by resolution,

designate one or more other committees of the board in accordance with the provisions of these Bylaws.

ARTICLE FIVE:  
NOTICE

5.1 Method. Whenever by statute, the certificate of incorporation of the Corporation, or these Bylaws, notice is required to be given to any committee member, director, or stockholder and no provision is made as to how such notice shall be given, personal notice shall not be required and any such notice may be given (a) in writing, by mail, postage prepaid, addressed to such committee member, director, or stockholder at his address as it appears on the books or (in the case of a stockholder) the stock transfer records of the Corporation, or (b) by any other method permitted by law (including but not limited to overnight courier service, telegram, telex, or telefax). Any notice required or permitted to be given by mail shall be deemed to be delivered and given at the time when the same is deposited in the United States mail as aforesaid. Any notice required or permitted to be given by overnight courier service shall be deemed to be delivered and given at the time delivered to such service with all charges prepaid and addressed as aforesaid. Any notice required or permitted to be given by telegram, telex, or telefax shall be deemed to be delivered and given at the time transmitted with all charges prepaid and addressed as aforesaid.

5.2 Waiver. Whenever any notice is required to be given to any stockholder, director, or committee member of the corporation by statute, the certificate of incorporation of the Corporation, or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice. Attendance of a stockholder, director, or committee member at a meeting shall constitute a waiver of notice of such meeting, except where such person attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

ARTICLE SIX:  
OFFICERS

6.1 Number; Titles, Term of Office. The officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, and such other officers as the board of directors may from time to time elect or appoint, including a Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Accounting Officer, one or more Vice Presidents (with each Vice President to have such descriptive title, if any, as the board of directors shall determine), Controller and a Treasurer. Each officer shall hold office until his successor shall have been duly elected and shall have qualified, until his death, or until he shall resign or shall have been removed in the manner hereinafter provided. Any two or more offices may be held by the same person. None of the officers need be a stockholder or a director of the Corporation or a resident of the State of Delaware.

6.2 Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interest of

the Corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

6.3 Vacancies. Any vacancy occurring in any office of the Corporation (by death, resignation, removal, or otherwise) may be filled by the board of directors.

6.4 Authority. Officers shall have such authority and perform such duties in the management of the Corporation as are provided in these Bylaws or as may be determined by resolution of the board of directors not inconsistent with these Bylaws.

6.5 Compensation. The compensation, if any, of officers and agents shall be fixed from time to time by the board of directors or any committee thereof; provided, however, that the board of directors may delegate the power to determine the compensation of any officer and agent (other than the officer to whom such power is delegated) to any other officer of the Corporation.

6.6 Chairman. The Chairman of the Board shall preside at all meetings of the board of directors and shall exercise such powers and perform such other duties as shall be determined from time to time by the board.

6.7 Chief Executive Officer. The Chief Executive Officer shall be the chief executive officer of the Corporation and shall have general supervision and direction over the business of the Corporation, subject, however, to the control of the board and of any duly authorized committee of directors. The Chief Executive Officer, in the absence of the Chairman, shall preside at each meeting of the stockholders and of the board. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and, in general, shall perform all duties incident to the office of Chief Executive Officer and such other duties as from time to time may be assigned to him by the board or by the By-laws.

6.8 President. The President shall assist the Chief Executive Officer in the management of and supervision and direction over the business and affairs of the Corporation, subject, however, to the direction of the Chief Executive Officer and the control of the board. The President may, in the absence of the Chairman and the Chief Executive Officer, preside, if present, at each meeting of the stockholders and of the board. The President may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments except in cases in which the signing and execution thereof shall be expressly delegated by the board or by these By-laws to some other officer or agent of the Corporation or shall be required by statute otherwise to be signed or executed and, in general, shall perform all duties incident to the office of the President and such other duties as from time to time may be assigned to him by the board, by the By-laws or by the Chief Executive Officer.

6.9 Chief Operating Officer. The Chief Operating Officer shall be the chief operating officer of the Corporation, and shall assist the Chief Executive Officer and the President in the active management of and supervision and direction over the business and affairs of the Corporation, subject, however, to the direction of the Chief Executive Officer and the President and the control of the board. In the absence of the Chairman, the Chief Executive Officer and the President, the Chief Operating Officer shall preside at each meeting of the stockholders and of the board. He may, with the Secretary or the Treasurer or an Assistant Secretary or an Assistant Treasurer, sign certificates for shares of capital stock of the Corporation. He may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts and other instruments, except in cases where the signing and execution thereof shall be expressly delegated by the board or by the By-laws to some other officer or agent of the Corporation, or shall be required by law otherwise to be signed or executed; and, in general, shall perform all duties incident to the office of Chief Operating Officer and such other duties as from time to time may be assigned to him by the board, by the By-laws, by the Chief Executive Officer or by the President.

6.10 Chief Financial Officer. The Chief Financial Officer shall be the chief financial officer of the Corporation, and shall render to the board, whenever the board may require, an account of the financial condition of the Corporation; shall make, sign and file financial, tax and similar reports to any state, federal or municipal government, agency or department, or any self-regulatory organization; shall provide for the continuous review of all accounts and reports; and shall perform such other duties as from time to time may be assigned to him by the board, by the By-laws or the Chief Executive Officer or President.

6.11 Vice Presidents. Each Vice President shall have such powers and perform such duties as from time to time may be assigned to such Vice President by the board or by the Chief Executive Officer or the President and shall perform such other duties as may be prescribed in the By-laws.

6.12 Secretary. Secretary shall attend all meetings of the stockholders and shall record all the proceedings of the meetings of the board and of the stockholders in a book to be kept for that purpose, and shall perform like duties for committees of the board, when required. The Secretary shall give, or cause to be given, notice of all special meetings of the board and of the stockholders and shall perform such other duties as may be prescribed by the board or by the Chief Executive Officer, under whose supervision the Secretary shall be. The Secretary shall have custody of the corporate seal of the Corporation, and the Secretary, or an Assistant Secretary, shall have authority to impress the same on any instrument requiring it, and when so impressed the seal may be attested by the signature of the Secretary or by the signature of such Assistant Secretary. The board may give general authority to any other officer to impress the seal of the Corporation and to attest the same by such officer's signature. The Secretary or an Assistant Secretary may also attest all instruments signed by the Chairman, the Chief Executive Officer or the President. The Secretary shall have charge of all the books, records and papers of the Corporation relating to its organization and management, shall see that the reports, statements and other documents required by statute are properly kept and filed and, in general, shall perform all duties incident to the office of Secretary of a corporation and such other duties

as may from time to time be assigned to the Secretary by the board, by the By-laws, by the Chief Executive Officer or by the President.

6.13 Treasurer. The Treasurer shall have charge and custody of, and be responsible for, all funds, securities and notes of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any sources whatsoever; deposit all such moneys and valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the board; against proper vouchers, cause such funds to be disbursed by checks or drafts on the authorized depositories of the Corporation signed in such manner as shall be determined by the board and be responsible for the accuracy of the amounts of all moneys so disbursed; regularly enter or cause to be entered in books or other records maintained for the purpose full and adequate account of all moneys received or paid for the account of the Corporation; have the right to require from time to time reports or statements giving such information as the Treasurer may desire with respect to any and all financial transactions of the Corporation from the officers or agents transacting the same; render to the Chairman, the Chief Executive Officer, the President or the board, whenever the Chairman, the Chief Executive Officer, the President or the board shall require the Treasurer so to do, an account of the financial condition of the Corporation and of all financial transactions of the Corporation; exhibit at all reasonable times the records and books of account to any of the Directors upon application at the office of the Corporation where such records and books are kept; disburse the funds of the Corporation as ordered by the board; and, in general, perform all duties incident to the office of Treasurer of a corporation and such other duties as may from time to time be assigned to the Treasurer by the board, by the By-laws or by the Chief Executive Officer or by the President.

6.14 Assistant Secretaries and Assistant Treasurers. Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Secretary or by the Treasurer, respectively, or by the board, by the By-laws or by the Chief Executive Officer or by the President.

ARTICLE SEVEN:  
CERTIFICATES AND STOCKHOLDERS

7.1 Certificates for Shares. Certificates for shares of stock of the Corporation shall be in such form as shall be approved by the board of directors. The certificates shall be signed by the Chairman of the Board, the Chief Executive Officer or the President or a Vice President and also by the Secretary or an Assistant Secretary or by the Treasurer or an Assistant Treasurer. Any and all signatures on the certificate may be a facsimile and may be sealed with the seal of the Corporation or a facsimile thereof. If any officer, transfer agent, or registrar who has signed, or whose facsimile signature has been placed upon, a certificate has ceased to be such officer, transfer agent, or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. The certificates shall be consecutively numbered and shall be entered in the books of the Corporation as they are issued and shall exhibit the holder's name and the number of shares.

7.2 Replacement of Lost or Destroyed Certificates. The board of directors may direct a new certificate or certificates to be issued in place of a certificate or certificates theretofore issued by the Corporation and alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate or certificates representing shares to be lost or destroyed. When authorizing such issue of a new certificate or certificates the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond with a surety or sureties satisfactory to the Corporation in such sum as it may direct as indemnity against any claim, or expense resulting from a claim, that may be made against the Corporation with respect to the certificate or certificates alleged to have been lost or destroyed.

7.3 Transfer of Shares. Shares of stock of the Corporation shall be transferable only on the books of the Corporation by the holders thereof in person or by their duly authorized attorneys or legal representatives. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment, or authority to transfer, the Corporation or its transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction upon its books.

7.4 Registered Stockholders. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

7.5 Regulations. The board of directors shall have the power and authority to make all such rules and regulations as they may deem expedient concerning the issue, transfer, and registration or the replacement of certificates for shares of stock of the Corporation.

7.6 Legends. The board of directors shall have the power and authority to provide that certificates representing shares of stock bear such legends as the board of directors deems appropriate to assure that the Corporation does not become liable for violations of federal or state securities laws or other applicable law.

ARTICLE EIGHT:  
MISCELLANEOUS; PROVISIONS

8.1 Dividends. Subject to provisions of law and the certificate of incorporation of the Corporation, dividends may be declared by the board of directors at any regular or special meeting and may be paid in cash, in property, or in shares of stock of the Corporation. Such declaration and payment shall be at the discretion of the board of directors.



8.2 Reserves. There may be created by the board of directors out of funds of the Corporation legally available therefor such reserve or reserves as the directors from time to time, in their discretion, consider proper to provide for contingencies, to equalize dividends, or to repair or maintain any property of the Corporation, or for such other purpose as the board of directors shall consider beneficial to the Corporation, and the board of directors may modify or abolish any such reserve in the manner in which it was created.

8.3 Books and Records. The Corporation shall keep correct and complete books and records of account, shall keep minutes of the proceedings of its stockholders and board of directors and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

8.4 Fiscal Year. The fiscal year of the Corporation shall be fixed by the board of directors.

8.5 Seal. The seal of the Corporation shall be such as from time to time may be approved by the board of directors.

8.6 Resignations. Any director, committee member, or officer may resign by so stating at any meeting of the board of directors or by giving written notice to the board of directors, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary. Such resignation shall take effect at the time specified therein or, if no time is specified therein, immediately upon its receipt. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

8.7 Securities of Other Corporations. The Chairman of the Board, the Chief Executive Officer, the President, or any Vice President of the Corporation shall have the power and authority to transfer, endorse for transfer, vote, consent, or take any other action with respect to any securities of another issuer which may be held or owned by the Corporation and to make, execute, and deliver any waiver, proxy, or consent with respect to any such securities.

8.8 Telephone Meetings. Stockholders (acting for themselves or through a proxy), members of the board of directors, and members of any committee of the board of directors may participate in and hold a meeting of such stockholders, board of directors, or committee by means of a conference telephone or similar communications equipment by means of which persons participating in the meeting can hear each other, and participation in a meeting pursuant to this section shall constitute presence in person at such meeting, except where a person participates in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

8.9 Action Without a Meeting.

(a) Except as otherwise provided in the certificate of incorporation of the Corporation, any action required by the Delaware Corporation Law to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special

meeting of the stockholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders (acting for themselves or through a proxy) of at least seventy-five percent (75%) of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon and shall be delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Every written consent of stockholders shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty days of the earliest dated consent delivered in the manner required by this Section 8.9(a) to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office, principal place of business, or such officer or agent shall be by hand or by certified or registered mail, return receipt requested.

(b) Except as otherwise provided in the certificate of incorporation of the Corporation or in these Bylaws, any action required or permitted to be taken at a meeting of the board of directors, or of any committee of the board of directors, may be taken without a meeting if a consent or consents in writing, setting forth the action so taken, shall be signed by all the directors or all the committee members, as the case may be, entitled to vote with respect to the subject matter thereof, and such consent shall have the same force and effect as a vote of such directors or committee members, as the case may be, and may be stated as such in any certificate or document filed with the Secretary of State of the State of Delaware or in any certificate delivered to any person. Such consent or consents shall be filed with the minutes of proceedings of the board or committee, as the case may be.

8.10 Invalid Provisions. If any part of these Bylaws shall be held invalid or inoperative for any reason, the remaining parts, so far as it is possible and reasonable, shall remain valid and operative.

8.11 Mortgages, etc. With respect to any deed, deed of trust, mortgage, or other instrument executed by the Corporation through its duly authorized officer or officers, the attestation to such execution by the Secretary of the Corporation shall not be necessary to constitute such deed, deed of trust, mortgage, or other instrument a valid and binding obligation against the Corporation unless the resolutions, if any, of the board of directors authorizing such execution expressly state that such attestation is necessary.

8.12 Headings. The headings used in these Bylaws have been inserted for administrative convenience only and do not constitute matter to be construed in interpretation.

8.13 References. Whenever herein the singular number is used, the same shall include the plural where appropriate, and words of any gender should include each other gender where appropriate.

8.14 Amendments. The board of directors shall have the power, upon the affirmative vote of a majority of the Directors at a meeting lawfully convened, to make, adopt, alter, amend, and repeal from time to time these Bylaws and to make from time to time new Bylaws, subject to the right of the stockholders entitled to vote thereon to adopt, alter, amend, and repeal Bylaws made by the board of directors or to make new Bylaws; provided, however, that the stockholders of the Corporation shall be entitled to adopt, alter, amend, or repeal Bylaws made by the board of directors or to make new Bylaws solely upon the affirmative vote of the holders of at least seventy-five percent (75%) of the outstanding shares of each class of capital stock of the Corporation then entitled to vote thereon.

ARTICLE NINE:  
CERTAIN TRANSACTIONS WITH STOCKHOLDERS  
AND CORPORATE OPPORTUNITIES

9.1 Certain Acknowledgements.

(a) In recognition and anticipation (i) that the Corporation will cease to be an indirect wholly-owned subsidiary of Daisytek International Corporation ("Parent") but that Parent will remain, for the period of time, a significant stockholder of the Corporation, (ii) that the Corporation may from time to time enter into contractual, corporate or business relations with one or more of its directors or officers, or one or more corporations, partnerships, associations or other organizations in which one or more of its directors or officers have a financial interest (collectively, "Related Entities"), (iii) that directors, officers, and/or employees of Parent may serve as directors or the Corporation, (iv) that Parent may engage in business activities that overlap with those in which the Corporation, directly or indirectly, may engage, (v) that the Corporation will engage in material business transactions with Parent and that the Corporation is expected to benefit therefrom, and (vi) that, as a consequence of the foregoing, it is in the best interests of the Corporation that the respective rights and duties of the Corporation and of Parent, and the duties of any directors of the Corporation who are also directors, officers or employees of Parent, be determined and delineated in respect of any transactions between, or opportunities that may be suitable for both, the Corporation, on the one hand, and Parent, on the other hand, the provisions of this Article shall regulate and define the conduct of certain of the business and affairs of the Corporation in relation to Parent.

(b) For purposes of this Article Nine only:

1. The term "Corporation" shall mean the Corporation and all corporations, partnerships, joint ventures, associations and other entities in which the Corporation beneficially owns (directly or indirectly) more than 50% of the outstanding voting stock, voting power or similar voting interests, and

2. The term "Parent" shall mean Parent and all corporations, partnerships, joint ventures, associations and other entities (other than the Corporation, defined in accordance with clause (i) of this Section) in which Parent beneficially owns (directly or indirectly) more than 50% of the outstanding voting stock, voting power or similar voting interests.

## 9.2 Contracts or Transactions.

(a) No contract or transaction (or any amendment, modification or termination thereof) between the Corporation and Parent or any Related Entity or between the Corporation and one or more of the directors or officers of the Corporation, Parent or any Related Entity, shall be void or voidable solely for the reason that Parent, any Related Entity or any one or more of the directors or officers of the Corporation, Parent or any Related Entity are parties thereto, or solely because any such directors or officers are present at or participate in the meeting of the board of directors or committee thereof that authorizes the contract, transaction, amendment, modification or termination or solely because his or their votes are counted for such purpose but any such contract or transaction (or any amendment, modification or termination thereof) shall be governed by the provisions of the Corporation's bylaws, the laws of Delaware and other applicable law.

(b) Directors of the Corporation who are also directors or officers of Parent or any Related Entity may be counted in determining the presence of a quorum at a meeting of the board of directors or of a committee that authorizes or approves any such contract or transaction (or amendment, modification or termination thereof). Outstanding shares of Common Stock owned by Parent and any Related Entities may be counted in determining the presence of a quorum at a meeting of stockholders that authorizes or approves any such contract or transaction (or amendment, modification or termination thereof).

(c) For purposes of this Article Nine, any contract or transaction with any corporation, partnership, joint venture, association or other entity in which the Corporation beneficially owns (directly or indirectly) more than 50% of the outstanding voting stock, voting power, partnership interest or similar voting interests, or with any officer or director thereof, shall be deemed to be a contract or transaction with the Corporation.

9.3 Alteration, Amendment, Change or Repeal. Notwithstanding anything herein to the contrary, the foregoing provisions of this Article Nine as they apply to Parent shall expire on the date that Parent ceases to own beneficially Common Stock representing at least 20% of the combined voting power of the Corporation's voting stock and no person who is a director or officer of the Corporation is also a director or officer of Parent; provided, however, that nothing in the foregoing provisions of this Article shall contradict or limit the provisions set forth under Section 144 of the Delaware Corporation Law. The alteration, amendment, change or repeal of any provision of this Article shall not eliminate or reduce the effect of this Article in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article, would accrue or arise, prior to such alteration, amendment, repeal or adoption.

COMMON STOCK

PAR VALUE \$.001

NUMBER

SHARES

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[PFSWEB LOGO]

PFSweb, Inc.

INCORPORATED UNDER THE LAWS  
OF THE STATE OF DELAWARE

THIS CERTIFICATE IS TRANSFERABLE IN  
THE CITIES OF NEW YORK, NEW YORK  
AND RIDGEFIELD PARK, NEW JERSEY

CUSIP 717098 10 7

SEE REVERSE FOR CERTAIN  
DEFINITIONS AND RESTRICTIONS  
ON TRANSFER

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK, PAR VALUE \$.001 PER SHARE, OF

PFSweb, Inc.

(herein called the "Corporation") transferable on the books of the Corporation by the holder hereof, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed or accompanied by a proper assignment. This Certificate and the shares represented hereby are issued under and shall be held subject to all of the provisions of the Amended and Restated Certificate of Incorporation and the Bylaws of the Corporation, and all amendments thereto, copies of which are on file at the principal offices of the Corporation and the Transfer Agent, to all of which the holder of this Certificate, by acceptance hereof, assents. This Certificate is not valid unless countersigned by the Transfer Agent and registered by the Registrar of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused the facsimile signatures of its duly authorized officers and its facsimile seal to be hereunto affixed.

Dated:

/s/

President and Chief Executive Officer

[SEAL]

COUNTERSIGNED AND REGISTERED:

CHASEMELLON SHAREHOLDER SERVICES, L.L.C.

TRANSFER AGENT AND REGISTRAR

BY

/s/

Secretary

AUTHORIZED SIGNATURE

The Corporation will furnish to any stockholder, upon request and without charge, a full statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof which the Corporation is authorized to issue and the qualifications, limitations or restrictions of such preferences and/or rights of each such class of stock or series thereof. Any such request should be made to the Secretary of the Corporation at its principal place of business or to the Transfer Agent and Registrar. The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT-	Custodian
TEN ENT	- as by the entireties		-----
JT TEN	- as joint tenants with right of survivorship and not as tenants in common		(Cust) (Minor) under Uniform Gifts to Minors Act ----- (State)

Additional abbreviations may also be used though not in the above list.

For Value Received, \_\_\_\_\_ hereby sell(s), assign(s) and transfer(s) unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE  
-----  
-----

-----  
PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE  
-----

-----  
Shares

-----  
of the Common Stock represented by the within Certificate and do(es) hereby irrevocably constitute and appoint

-----  
Attorney

-----  
to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated \_\_\_\_\_

NOTICE:

THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.	X ----- (SIGNATURE)
	X ----- (SIGNATURE)

-----  
THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15.  
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SIGNATURE(S) GUARANTEED BY:  
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Dallas, Texas,

November 22, 1999

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE UNAUDITED FINANCIAL STATEMENTS OF PFSWEB, INC. AS OF AND FOR THE SIX MONTHS ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS	MAR-31-2000	APR-01-1999	SEP-30-1999
			1,247
		0	
	6,646		
	617		
	0		
	9,068		
		9,193	
	861		
	29,988		
7,907			0
0			0
			0
		(238)	
29,988			
		62,782	
	62,782		
		57,537	
	57,537		
	5,724		
	147		
	650		
	(1,276)		
		(503)	
(773)			
		0	
		0	
			0
		(773)	
		(.05)	
		(.05)	