UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

OR

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

For the Transition Period from _______ to _______

Commission File Number 000-28275

PFSWEB, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Yes X No ____

At August 7, 2002 there were 18,268,154 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

PFSWEB, INC. AND SUBSIDIARIES
FORM 10-Q

JUNE 30, 2002

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PFSWEB, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	June 30, 2002 (unaudited)	December 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,124	$ 10,669
Accounts receivable, net of allowance for doubtful accounts of $238 and $254 at June 30, 2002 and December 31, 2001, respectively	8,560	6,915
Other receivables	--	92
Prepaid expenses and other current assets	1,541	2,646
Total current assets	19,225	20,322
PROPERTY AND EQUIPMENT, net	14,250	15,329
NOTE RECEIVABLE FROM AFFILIATE	8,800	11,655
RESTRICTED CASH	2,884	2,722
INVESTMENT IN AFFILIATE	1,955	750
OTHER ASSETS	541	833
Total assets	$ 47,655	$ 51,611
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 1,344	$ 995
Trade accounts payable	3,000	2,838
Accrued expenses	5,908	5,300
Total current liabilities	10,252	9,133
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	3,620	3,663
DEFERRED INCOME	1,842	2,210
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued and outstanding	--	--
Common stock, $0.001 par value; 40,000,000 shares authorized; 18,269,572 and 18,143,409 shares issued at June 30, 2002 and December 31, 2001, respectively; and 18,183,272 and 18,057,109 outstanding at June 30, 2002 and December 31, 2001, respectively	18	18
Additional paid-in capital	52,047	51,942
Accumulated deficit	(19,792)	(14,157)
Accumulated other comprehensive loss	(247)	(1,113)
Treasury stock at cost, 86,300 shares at June 30, 2002 and December 31, 2001	(85)	(85)
Total shareholders' equity	31,941	36,605
Total liabilities and shareholders' equity	$ 47,655	$ 51,611

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

PFSWEB, INC. AND SUBSIDIARIES

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
REVENUES:				
Gross service fee revenue	$ 9,880	$ 10,621	$ 17,706	$ 23,259
Gross service fee revenue, affiliate (Note 8)	1,575	--	3,140	--
Total gross service fee revenue	11,455	10,621	20,846	23,259
Less pass-through charges	1,117	1,204	2,190	2,601
Net service fee revenue	10,338	9,417	18,656	20,658
Other net revenue	--	100	--	497
Total net revenues	10,338	9,517	18,656	21,155
COSTS OF REVENUES:				
Cost of net service fee revenue	6,376	6,087	11,605	13,678
Cost of other revenue	--	--	--	59
Total costs of net revenues	6,376	6,087	11,605	13,737
Gross profit	3,962	3,430	7,051	7,418
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7024	5,978	14,117	12,380
OTHER	--	(4,280)	--	(4,280)
Income (loss) from operations	(3,062)	1,732	(7,066)	(682)
EQUITY IN EARNINGS OF AFFILIATE	386	--	898	--
INTEREST INCOME, NET	268	171	533	382
Income (loss) before income taxes	(2,408)	1,903	(5,635)	(300)
INCOME TAX BENEFIT	--	--	--	11
NET INCOME (LOSS)	$ (2,408)	$ 1,903	$ (5,635)	$ (289)
NET INCOME (LOSS) PER SHARE: Basic and diluted	$ (0.13)	$ 0.11	$ (0.31)	$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: Basic and diluted	18,183	17,970	18,166	17,939

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

PFSWEB, INC. AND SUBSIDIARIES

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

Six Months Ended June 30,	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (5,635)	$ (289)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,098	3,274
Deferred income taxes	--	109
Provision for doubtful accounts	11	258
Equity in earnings of affiliate	(898)	--
Non-cash compensation expense	28	696
Gain on sale of distribution facility	--	(4,976)
Changes in operating assets and liabilities:		
Accounts receivable	(1,588)	2,679
Prepaid expenses and other current assets	1,496	(421)
Accounts payable, accrued expenses and deferred income	247	(2,831)
Net cash used in operating activities	(3,241)	(1,501)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(922)	(2,224)
Increase in restricted cash	(154)	(574)
Proceeds from loan to affiliate, net	2,855	--
Proceeds from sale of distribution facility, net	--	9,437
Net cash provided by investing activities	1,779	6,639
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations	(506)	(166)
Proceeds from issuance of common stock	77	64
Proceeds from debt	172	--
Net cash used in financing activities	(257)	(102)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	174	(27)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,545)	5,009
CASH AND CASH EQUIVALENTS, beginning of period	10,669	18,143
CASH AND CASH EQUIVALENTS, end of period	$ 9,124	$ 23,152
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Fixed assets acquired under capital leases	$ 633	$ 592

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION

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

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

Certain prior period data has been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income or shareholders' equity. Included in selling, general and administrative expenses in the three and six months ended June 30, 2002, are approximately $0.8 and $1.5 million, respectively, of technology infrastructure costs that were incurred in both periods but that were recorded as a component of cost of net service fee revenue in the three and six months ended June 30, 2001. These technology costs were principally dedicated to the activities that generated service fee revenue under the transaction management services contract with Daisytek International Corporation ("Daisytek"), the Company's former parent corporation, which was terminated in November 2001 (see Note 6).

2. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

All intercompany accounts and transactions have been eliminated in consolidation.

INVESTMENT IN AFFILIATE

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

In addition to the equity investment, at June 30, 2002 the Company has an $8.8 million outstanding loan to Supplies Distributors, a subsidiary of Holdings, in the form of a Subordinated Demand Note (the "Note"). The Note can be decreased to $6.5 million subject to Holdings' compliance with the covenants of its senior loan facilities, as amended. Management believes that the Note, which is due on demand, will not be repaid in its entirety within the upcoming year and has therefore classified the entire balance as long-term.

The Company evaluates each period whether the carrying value of the Note from Supplies Distributors is impaired and whether it will be required to perform under its primary guarantee obligation associated with the Supplies Distributors debt obligations ($57.4 million at June 30, 2002) (See Note 8). As of June 30, 2002, management believes the carrying value of the Note is recoverable and that no liability should be recorded in the consolidated financial statements of PFSweb associated with its guarantee obligation.

REVENUE AND COST RECOGNITION

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

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

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

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

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

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

Other revenue of $0.1 million and $0.5 million for the three and six months ended June 30, 2001, respectively, represents the fees charged to clients in conjunction with early contract terminations. Cost of other revenue for the three and six months ended June 30, 2001 includes approximately $0.1 million of certain uncollectible amounts receivable from, and liabilities applicable to, clients who terminated contracts.

The Company primarily performs its services under two to three year contracts that can be terminated by either party. In conjunction with these long-term contracts the Company generally receives start-up fees to

cover its implementation costs, including certain technology infrastructure and development costs. The Company defers the fees received, and the related costs, and amortizes them over the life of the contract. The amortization of deferred revenue is included as a component of service fee revenue. The amortization of deferred implementation costs is included as a cost of service fee revenue. To the extent implementation costs exceed the fees received, excess costs are expensed as incurred.

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

	JUNE 30, 2002	DECEMBER 31, 2001
Deferred implementation costs		
Current	$ 626	$ 857
Non-current	382	655
	$ 1,008	$ 1,512
Deferred implementation revenues		
Current	1,134	1,486
Non-current	606	988
	$ 1,740	$ 2,474

Current and non-current deferred implementation costs are a component of prepaid expenses and other assets, respectively. Current and non-current deferred implementation revenues are a component of accrued expenses and deferred income, respectively.

CONCENTRATION OF BUSINESS AND CREDIT RISK

The Company had three clients that each exceeded 10% of the Company's net service fee revenues for the six months ended June 30, 2002. In total, these clients represented approximately 63% of the Company's net service fee revenue, with the Company's largest client representing 33% of net revenues, and Supplies Distributors and its affiliates (see Note 8) representing 16% of net revenues. Service fee revenue from Daisytek accounted for approximately 62% of the Company's total revenues for the six months ended June 30, 2001, of which 20% was from the Daisytek subsidiaries that were the predecessors to Supplies Distributors. As of June 30, 2002, the Company's largest client accounted for approximately 40% of accounts receivable. As of December 31, 2001, two clients accounted for approximately 36% of accounts receivable, of which 12% was due from Supplies Distributors and its affiliates.

As of June 30, 2002 and December 31, 2001, the Company had a note receivable of $8.8 million and $11.7 million, respectively, outstanding from Supplies Distributors.

RESTRICTED CASH

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

PROPERTY AND EQUIPMENT

The Company's property held under capital leases amounted to approximately $5.3 million and $5.5 million, net of accumulated amortization of approximately $3.4 million and $2.4 million at June 30, 2002 and December 31, 2001, respectively.

3. RECENTLY ISSUED ACCOUNTING PRINCIPLES

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

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

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company is currently assessing the impact on the consolidated financial statements and will adopt the provisions of this standard by the first quarter of 2003.

4. COMPREHENSIVE INCOME (LOSS) (IN THOUSANDS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net income (loss)	$ (2,408)	$ 1,903	$ (5,635)	$ (289)
Other comprehensive income: Foreign currency translation Adjustment	1,313	(1,000)	866	(990)
Comprehensive income (loss)	$ (1,095)	$ 903	$ (4,769)	$ (1,279)

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

5. NET INCOME (LOSS) PER COMMON SHARE AND COMMON SHARE EQUIVALENT

Basic and diluted net loss per common share attributable to PFSweb common stock were determined based on dividing the income or loss available to common stockholders by the weighted-average number of common shares outstanding. During the three and six months ended June 30, 2002 and 2001, all outstanding options to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. As of June 30, 2002 and 2001 there were 6,007,797 and 1,934,983 options outstanding, respectively. There are no other potentially dilutive securities outstanding.

6. TRANSACTIONS WITH DAISYTEK

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

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

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

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

Net service fee revenue charged to Daisytek under (i) the IBM Master Distributor Agreements (See Note 8), entered into during the quarter ended September 30, 1999, (ii) the transaction management services agreement with Daisytek, and (iii) certain subcontracted services, were $5.7 million, net of $0.1 million of pass-through charges, and $13.1 million, net of $0.1 million of pass-through charges, for the three and six months ended June 30, 2001, respectively.

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

7. DISPOSITION OF ASSETS

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

Pro forma net revenues and pro forma loss from operations for the three months ended June 30, 2001, assuming the transaction had occurred in January 2001, would have been $5.7 million and $(4.3) million, respectively. Pro forma net revenues and pro forma loss from operations for the six months ended June 30, 2001, assuming the transaction had occurred in January 2001, would have been $12.2 million and $(8.6) million, respectively. The pro forma data do not give effect to any fees earned by PFSweb for services provided to Daisytek under a six-month transition services agreement entered into on May 25, 2001 or the effect of the $5.8 million gain on the sale of the assets. Additionally, these pro forma adjustments do not consider certain infrastructure costs, such as operating costs associated with the information technology function, salaries of certain management and personnel, telephone and lease costs, and depreciation expense which supported this business but that will continue in the future. Because these ongoing costs were not considered, the pro forma adjustments to the loss from operations are not indicative of the overall margin earned under these transaction management services agreements.

8. SUPPLIES DISTRIBUTORS

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

On June 8, 2001, Daisytek notified the Company and IBM that it did not intend to renew these agreements upon their scheduled expiration dates. In July 2001, the Company and Inventory Financing

Partners, LLC ("IFP") formed Holdings, and Holdings formed a wholly-owned subsidiary, Supplies Distributors ("Supplies Distributors"). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries Supplies Distributors of Canada, Inc. ("SDC") and Supplies Distributors S.A. ("SDSA"), a Belgium corporation. Supplies Distributors, SDSA, the Company and IBM entered into new Master Distributor Agreements to replace the prior agreements. Under these agreements, Supplies Distributors and SDSA act as master distributors of various IBM products and, pursuant to a transaction management services agreement between the Company and Supplies Distributors, the Company provides transaction management and fulfillment services to Supplies Distributors.

The Company made an equity investment of $0.75 million in Holdings, which is included in investment in affiliate in the accompanying consolidated financial statements, for a 49% voting interest, and IFP made an equity investment of $0.25 million in Holdings for a 51% voting interest. Certain officers and a director of the Company collectively own a 49% non-voting interest in IFP. In addition to its equity investment in Holdings, the Company has also provided Supplies Distributors with a subordinated loan, evidenced by the Note, which, as of June 30, 2002, had an outstanding balance of $8.8 million (see Note 2). In June 2002, Supplies Distributors repaid $3.0 million to the Company, reducing the outstanding balance of the Note. The Note, which is classified as a note receivable from affiliate, accrues interest at a fluctuating rate per annum equal to the Company's cost of funds, as determined by the Company. For the three and six months ended June 30, 2002, the Company charged interest at 10% and earned $0.3 and $0.6 million, respectively, associated with the Note.

On September 26, 2001, Supplies Distributors purchased all of the stock of the BSD Companies for a purchase price of $923,000. In conjunction with the purchase, BSD and Supplies Distributors were merged with Supplies Distributors being the surviving corporation. Effective December 31, 2001, BSD Canada and SDC were amalgamated, with SDC being the surviving corporation. On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") for the purpose of financing its distribution of IBM products. The facilities, which at inception included $40 million for the U.S. operations and 20 million Euros (approximately $19.8 million) for the European operations, were subsequently increased to $45 million and 27 million Euros (approximately $26.8 million), respectively, and extended through March 25, 2002.

On March 29, 2002, Supplies Distributors entered into amended credit facilities with IBM Credit and SDSA and BSD Europe entered into amended credit facilities with IBM Belgium. The asset based credit facility with IBM Credit provides financing for purchasing IBM inventory up to $32.5 million through June 30, 2002 and $27.5 million from July 1, 2002 through its expiration on March 29, 2003. The asset based credit facility with IBM Belgium provides up to 27 million Euros (approximately $26.8 million) in financing for purchasing IBM inventory through June 30, 2002 and 22 million Euros (approximately $21.8 million) thereafter. The IBM Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2003. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb (See Note 9). Additionally, the Company is required to maintain a subordinated loan to Supplies Distributors of no less than $6.5 million and shareholders' equity of at least $25.0 million.

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

rate plus 3.0% or on an adjusted basis, as defined. In Europe, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 10 million Euros (approximately $9.9 million) of eligible accounts receivables. Borrowings under this agreement accrue interest at 8.5%, or on an adjusted basis as defined. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb (See Note 9). Additionally, the Company is required to maintain a subordinated loan to Supplies Distributors of no less than $6.5 million and may not maintain restricted cash of more than $5.0 million as security for capital leases, and is restricted with regard to transactions with related parties, capital expenditures, indebtedness and changes to capital stock ownership structure.

Pursuant to the terms of the Company's transaction management services agreement with Supplies Distributors, the Company earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately $1.5 million, net of $0.1 million of pass-through charges, for the three months ended June 30, 2002 and $3.0 million, net of $0.1 million of pass-through charges, for the six months ended June 30, 2002. Prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were $2.0 million, net of $0.1 million of pass-through charges, for the three months ended June 30, 2001 and $4.3 million, net of $0.3 million of pass-through charges, for the six months ended June 30, 2001. As of June 30, 2002 and December 31, 2001, the Company has trade accounts receivables of $0.7 million and $0.9 million due from Supplies Distributors, respectively.

Pursuant to Holdings' operating agreement, Holdings allocates its earning and distributes its cash flow, as defined, in the following order of priority: first, to IFP until it has received a one-time amount equal to its capital contribution of $0.25 million; second, to IFP until it has received an amount equal to a 35% cumulative annual return on its capital contribution; third, to PFSweb until it has received a one-time amount equal to its capital contribution of $0.75 million; fourth, to PFSweb until it has received an amount equal to a 35% cumulative annual return on its capital contribution; and fifth, to PFSweb and IFP, pro rata, in accordance with their respective capital accounts. Notwithstanding the foregoing, no distribution may be made if, after giving effect thereto, the net worth of Holdings shall be less than $1.0 million. In May 2002, Holdings paid a $0.2 million dividend to IFP. Under the terms of its credit agreements, Holdings is currently limited to annual cash dividends of $0.6 million. The Company recorded $0.4 million and $0.9 million of equity in the earnings of Holdings for the three and six months ended June 30, 2002, respectively. The Company's investment in Holdings includes the Company's proportionate share of cumulative foreign currency translation adjustments reflected in Holdings equity section, which, as of June 30, 2002, resulted in a decrease of $0.3 million to the Company's accumulated other comprehensive loss.

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Cash and cash equivalents (including restricted cash of $738)	$ 1,443
Accounts receivable, net of allowance for doubtful accounts of $312	29,988
Inventories, net	41,236
Prepaid expenses and other current assets	3,408
Other assets, net (including restricted cash of $875)	1,072
Total assets	$ 77,147
Trade accounts payable	$ 2,895
Accrued expenses	2,204
Debt (guaranteed by PFSweb)	57,445
Other debt	3,256
Note payable to affiliate	8,800
Members' capital:	
Capital contributions	1,000
Retained earnings	1,018
Unrealized gain on investment	294
Accumulated other comprehensive loss	235
Total members' capital	2,547
Total liabilities and members' capital	$ 77,147

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

	June 30, 2002	
	Three Months	Six Months
Net revenues	$ 52,936	$ 106,039
Cost of goods sold	49,771	99,851
Gross profit	3,165	6,188
Selling, general and administrative expenses	1,352	3,227
Income from operations	1,813	2,961
Interest expense	1,148	1,581
Income before income taxes	665	1,380
Income tax expense	257	553
Net income	$ 408	$ 827

9. COMMITMENTS AND CONTINGENCIES

The Company has provided collateralized guarantees to secure the repayment of Supplies Distributors' credit facilities. As of June 30, 2002 the outstanding balance of the credit facilities guaranteed by the Company was approximately $57.4 million. These guarantees expire concurrently with the expiration of the underlying credit agreements. To the extent Supplies Distributors or its subsidiaries fails to comply with its covenants, including its monthly financial covenant requirements, and the lenders accelerate the repayment of the credit facility obligations, Supplies Distributors or its subsidiaries would be required to repay all amounts outstanding thereunder. In such event, the Company would be obligated to perform under those guarantees and repay, to the extent Supplies Distributors or its subsidiaries was unable to, Supplies Distributors' or its subsidiaries credit facility obligations. Additionally, if the Company was unable to maintain the Company's required level of stockholders' equity of $25.0 million or if the Company was to violate any of the restricted transactions pursuant to the IBM Credit, IBM Belgium, or Congress agreements (see Note 8), the Company could also be obligated to perform under these guarantees. Any requirement to perform under the Company's guarantees would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company will have the financial ability to repay all of such guaranteed obligations. In addition, in the event Supplies Distributors or its subsidiaries is, or would be, in default of its obligations under its credit facilities, the Company is restricted from receiving any payment of its Note and such event would also have a material adverse impact upon the Company's financial condition and results of operations. Furthermore, the Company is obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. The Company has also provided a guarantee of the obligations of Supplies Distributors and its subsidiaries to IBM, excluding the trade payables that are financed by IBM Credit. No liabilities have been recorded in the accompanying financial statements for these guarantee obligations.

Although the parties to these credit facilities are currently in compliance with all of the covenants and other provisions required thereunder, the Company may seek the consent of the required lenders to modify, amend or waive some of the restrictions and financial covenants thereunder prior to its maturity in March 2003. No assurance can be given that the Company will be able to obtain such modifications, amendments or waivers, and the failure to obtain one or more of such modifications, amendments or waivers will have a material adverse effect upon Holdings, Supplies Distributors and PFSweb and their respective financial condition and operations.

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

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

FORWARD-LOOKING INFORMATION

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

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

- our ability to raise additional capital;

- our relationship with and our guarantees of the working capital indebtedness of our affiliate, Supplies Distributors;

- the continued listing of our common stock on the NASDAQ SmallCap Market; and

- our relationship with and separation from Daisytek, our former parent corporation.

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

OVERVIEW

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

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

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

RESULTS OF OPERATIONS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Gross service fee revenue	95.6%	111.6%	94.9%	110.0%
Gross service fee revenue, affiliate	15.2	--	16.8	--
Total gross service fee revenue	110.8	111.6	111.7	110.0
Pass-through charges	(10.8)	(12.7)	(11.7)	(12.3)
Net service fee revenue	100.0	98.9	100.0	97.7
Other net revenue	--	1.1	--	2.3
Total net revenues	100.0	100.0	100.0	100.0
Cost of net service fee revenue (as % of net service fee revenue)	61.7	64.6	62.2	66.2
Cost of other net revenue (as % of total net revenue)	--	--	--	0.3
Total costs of net revenues	61.7	64.0	62.2	64.9
Gross profit	38.3	36.0	37.8	35.1
Selling, general and administrative expenses	67.9	62.8	75.7	58.5
Other	--	(45.0)	--	(20.2)
Income (loss) from operations	(29.6)	18.2	(37.9)	(3.2)
Equity in earnings of affiliate	3.7	--	4.8	--
Interest income, net	2.6	1.8	2.9	1.8
Income (loss) before income taxes	(23.3)	20.0	(30.2)	(1.4)
Income tax benefit	--	--	--	--
Net income (loss)	(23.3)%	20.0%	(30.2)%	(1.4)%

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

Net Service Fee Revenue (including service fee revenue, affiliate). Net service fee revenue was $10.3 million for the three months ended June 30, 2002 as compared to $9.4 million for the three months ended June 30, 2001, an increase of $0.9 million or 9.8%. The increase in net service fee revenue over the prior period was due to the impact of new service contract relationships of $5.4 million and a seasonably high revenue period of our largest client. The impact of such new contracts was partially offset by the impact of terminated contracts in calendar year 2001 of $3.8 million, primarily the Daisytek contracts. Net service fee revenue for the three months ended June 30, 2002, included $0.4 million of contracts terminated in the current fiscal year. Net service fee revenue was $18.7 million for the six months ended June 30, 2002 as compared to $20.7 million for the six months ended June 30, 2001, a decrease of $2.0 million or 9.7%. The decrease in net service fee revenue over the prior period was due to the impact of certain client terminations in calendar year 2001 of $9.6 million, primarily the Daisytek contracts. This reduction was partially offset by the impact of new service contract relationships of $8.6 million. Net service fee revenue for the six month period ended June 30, 2002 included $0.9 million of contracts terminated in the current fiscal year. For the three and six month periods ended June 30, 2002, net service fee revenue from existing clients declined $0.7 million and $1.0 million, respectively, from the prior periods, primarily related to decreases in the net service fee revenues earned from the business activity with Supplies Distributors versus its predecessor company.

In conjunction with the $10.9 million sale of a distribution facility to Daisytek in May 2001 (discussed below in "Liquidity and Capital Resources"), we terminated certain of our transaction management services agreements entered into between us, Daisytek and a Daisytek subsidiary. Concurrently with the closing of the facility sale, we entered into a six-month transition services agreement to provide Daisytek with certain transitional and information technology services. The net impact of the changes in our services provided to Daisytek, excluding the business activity previously provided to BSD, another Daisytek subsidiary, was a reduction in net service fee revenue of $3.8 million and $9.0 million for the three and six months ended June 30, 2002, respectively. Such terminated contracts do not include the business activity previously provided to BSD, a Daisytek subsidiary, which now operates through Supplies Distributors, our affiliate company.

Pursuant to the terms of the Company's transaction management services agreement with Supplies Distributors, the Company earned service fees, which are reported as service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately $1.5 million, net of $0.1 million of pass-through charges, for the three months ended June 30, 2002 and $3.0 million, net of $0.1 million of pass-through charges, for the six months ended June 30, 2002. Prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were $2.0 million, net of $0.1 million of pass-through charges, for the three months ended June 30, 2001 and $4.3 million, net of $0.3 million of pass-through charges, for the six months ended June 30, 2001.

Other Revenue. Other revenue of $0.1 million and $0.5 million for the three and six months ended June 30, 2001, respectively, represents the fees charged to clients in conjunction with early contract terminations.

Cost of Net Service Fee Revenue. Cost of net service fee revenue was $6.4 million for the three months ended June 30, 2002, as compared to $6.1 million during the three months ended June 30, 2001, an increase of $0.3 million or 4.7%. The resulting service fee gross profit was $4.0 million, or 38.3% of net service fee revenue, during the three months ended June 30, 2002 as compared to $3.3 million, or 35.4% of net service fee revenue for the three months ended June 30, 2001. The increase in gross profit is primarily a result of the increase in service fee revenue. Our gross profit as a percent of net service fee revenue also increased in the current period because the gross profit percentage earned on certain contracts terminated in calendar year 2001 was lower than the contracts we currently operate. In addition, our net service fee revenue with our new largest client is seasonally high during the June quarter, which favorably impacts our gross margin percentage, as the fixed costs represent a lower percentage of net service fee revenue. This was partially offset by $0.3 million of costs in excess of start up fees incurred for a new client implementation during the three months ended June 30, 2002. Cost of net service fee revenue was $11.6 million for the six months ended June 30, 2002, as compared to $13.7 million during the six months ended June 30, 2001, a decrease of $2.1 million or 15.2%. The resulting service fee gross profit was $7.1 million or 37.8% of net service fee revenue, during the six months ended June 30, 2002 as compared to $7.0 million, or 33.8% of net service fee revenue for the six months ended June 30, 2001. The reduction in gross profit is primarily a result of the decrease in service fee revenue. However, our gross profit as a percent of net service fee revenue increased in the current period because the gross profit percentage earned on certain contracts terminated in calendar year 2001 was lower than the contracts we currently operate. This was partially offset by $0.3 million of costs in excess of start up fees incurred for a new client implementation during the six months ended June 30, 2002.

Cost of Other Net Revenue. Cost of other revenue for the three and six months ended June 30, 2001 reflect approximately $0.1 million of certain uncollectible amounts receivable from, and accrued expenses applicable to, clients who terminated contracts.

Selling, General and Administrative Expenses. SG&A expenses were $7.0 million for the three months ended June 30, 2002, or 67.9% of revenues, as compared to $6.0 million, or 62.8% of revenues, for the three months ended June 30, 2001. SG&A expenses were $14.1 million for the six months ended June 30, 2002, or 75.7% of revenues, as compared to $12.4 million, or 58.5% of revenues, for the six months ended June 30, 2001. SG&A expenses increased over the prior year due to approximately $0.8 million and $1.5 million for the three and six months ended June 30, 2002, respectively, of technology infrastructure costs that were incurred in both periods but that were recorded as a component of cost of service fee revenue in the prior year. These technology costs were principally dedicated to the activities that generated service fee revenue under the transaction management services contract with Daisytek, which was terminated in November 2001. Increases in sales and marketing costs in the current six month period were offset by a net decrease in personnel compensation costs due to head count reductions.

Equity in Earnings of Affiliate. For the three and six months ended June 30, 2002, we recorded $0.4 million and $0.9 million, respectively, of equity in earnings of affiliate that represents our allocation of Holdings earnings.

Interest Income. Interest income was $0.3 million for the three months ended June 30, 2002 as compared to interest income of $0.2 million for the three months ended June 30, 2001. Interest income was $0.5 million for the six months ended June 30, 2002 as compared to interest income of $0.4 million for the six months ended June 30, 2001. The increase in interest income is attributable to the impact of higher interest rates charged on our subordinated loan to Supplies Distributors partially offset by lower interest rates earned by our cash and cash equivalents and higher interest expense due to an increase in our long-term debt and capital lease obligations. We anticipate that interest income will decrease in the future due to the reduction of the outstanding balance on our subordinated loan to Supplies Distributors.

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

SUPPLIES DISTRIBUTORS

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

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

We made an equity investment of $0.75 million in Holdings for a 49% voting interest, and IFP made an equity investment of $0.25 million in Holdings for a 51% voting interest. Certain officers and a director of PFSweb own a 49% non-voting interest in IFP. In addition to its equity investment in Holdings, we have also provided Supplies Distributors with a subordinated loan, which, as of June 30, 2002, had an outstanding balance of $8.8 million and accrued interest at approximately 10%. During June 2002, Supplies Distributors repaid us $3.0 million, reducing the balance of our subordinated loan. The balance can be decreased to $6.5 million subject to Supplies Distributors' compliance with the covenants of its senior loan facilities, as amended.

On September 26, 2001, Supplies Distributors purchased all of the stock of the BSD Companies for a purchase price of $923,000. In conjunction with the purchase, BSD and Supplies Distributors were merged with Supplies Distributors being the surviving corporation. Effective December 31, 2001, BSD Canada and SDC were amalgamated, with SDC being the surviving corporation. On September 27, 2001, Supplies Distributors entered into short-term credit facilities with IBM Credit Corporation ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium") for the purpose of financing its distribution of IBM

products. The facilities, which at inception included $40 million for the U.S. operations and 20 million Euros (approximately $19.8 million) for the European operations, were subsequently increased to $45 million and 27 million Euros (approximately $26.8 million), respectively, and extended through March 25, 2002. The Company has provided a collateralized guaranty to secure the repayment of these credit facilities.

On March 29, 2002, Supplies Distributors entered into amended credit facilities with IBM Credit and SDSA and BSD Europe entered into amended credit facilities with IBM Belgium. The asset based credit facility with IBM Credit provides financing for purchasing IBM inventory up to $32.5 million through June 30, 2002 and $27.5 million from July 1, 2002 through its expiration on March 29, 2003. The asset based credit facility with IBM Belgium provides up to 27 million Euros (approximately $26.8 million) in financing for purchasing IBM inventory through June 30, 2002 and 22 million Euros (approximately $21.8 million) thereafter. The IBM Belgium facility remains in force until not less than 60 days written notice by any party, but no sooner than March 29, 2003. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $6.5 million, and shareholders' equity of at least $25.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or SDSA under these facilities. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined.

Concurrent with these amended agreements, Supplies Distributors entered into a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to $25 million of eligible accounts receivables in the U.S. and Canada. The Congress facility expires on the earlier of three years or the date on which the parties to the IBM Master Distributor Agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.25% or Eurodollar rate plus 3.0% or on an adjusted basis, as defined. In Europe, SDSA entered into a two year factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 10 million Euros (approximately $9.9 million) of eligible accounts receivables. Borrowings under this agreement accrue interest at 8.5%, or on an adjusted basis as defined. These credit facilities contain cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan of no less than $6.5 million to Supplies Distributors and may not maintain restricted cash of more than $5.0 million as security for capital leases, and are restricted with regard to transactions with related parties, capital expenditures, indebtedness and changes to capital stock ownership structure. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors under the Congress facility. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. PFS has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Pursuant to the terms of our transaction management services agreement with Supplies Distributors, we earned service fees, which are reported as gross service fee revenue, affiliate in the accompanying unaudited interim condensed consolidated financial statements, of approximately $1.5 million, net of $0.1 million of pass-through charges, for the three months ended June 30, 2002 and $3.0 million, net of $0.1 million of pass-through charges, for the six months ended June 30, 2002. Prior to becoming a related party, service fees earned by PFSweb from BSD (the Daisytek subsidiary and predecessor to Supplies Distributors), associated with the same business activities, were $2.0 million, net of $0.1 million of pass-through charges, for the three months ended June 30, 2001 and $4.3 million, net of $0.3 million of pass-through charges, for the six months ended June 30, 2001. As of June 30, 2002 and December 31, 2001 we had trade accounts receivables of $0.7 million and $0.9 million due from Supplies Distributors, respectively.

We record our interest in Holdings' net income, which is allocated and distributed to the owners pursuant to the terms of Holdings' operating agreement, under the modified equity method, which results in us recording our allocated earnings of Holdings or 100% of Holdings' losses and our proportionate share of Holdings' cumulative foreign currency translation adjustments. Pursuant to Holdings' operating agreement, Holdings allocates its earning and distributes its cash flow, as defined, in the following order of priority: first, to IFP until it has received a one-time amount equal to its capital contribution of $0.25 million; second, to IFP until it has received an amount equal to a 35% cumulative annual return on its capital contribution; third, to PFSweb until it has received a one-time amount equal to its capital contribution of $0.75 million; fourth, to PFSweb until it has received an amount equal to a 35% cumulative annual return on its capital contribution; and fifth, to PFSweb and IFP, pro rata, in accordance with their respective capital accounts. Notwithstanding the foregoing, no distribution may be made if, after giving effect thereto, the net worth of Holdings shall be less than $1.0 million. In May 2002, Holdings paid a $0.2 million dividend to IFP. Under terms of the credit agreements described above, Holdings is currently limited to annual cash dividends of $0.6 million. We recorded $0.4 million and $0.9 million of equity in the earnings of Holdings for the three and six months ended June 30, 2002, respectively. Our investment in Holdings includes our proportionate share of cumulative foreign currency translation adjustments reflected in Holdings equity section, which, as of June 30, 2002, resulted in a decrease of $0.3 million to our accumulated other comprehensive loss.

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

Cash and cash equivalents (including restricted cash of $738)	$ 1,443
Accounts receivable, net of allowance for doubtful accounts of $312	29,988
Inventories, net	41,236
Prepaid expenses and other current assets	3,408
Other assets, net (including restricted cash of $875)	1,072
Total assets	$ 77,147
Trade accounts payable	$ 2,895
Accrued expenses	2,204
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Note payable to affiliate	8,800
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Total members' capital	2,547
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	June 30, 2002	
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Interest expense		

1,148 1,581 ------------ ------------
Income before income taxes
.... 665 1,380
Income tax expense
.... 257
553 ------------ ------------ Net
income
....
$ 408 $ 827 ============ ============

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash used in operating activities was $3.2 million for the six months ended June 30, 2002, and primarily resulted from cash used to fund operating losses and the net impact of an increase in accounts receivable of $1.6 million, partially offset by an increase in accounts payable and accrued expenses of $0.2 million and a decrease in prepaid expenses and other current assets of $1.5 million. The increase in accounts receivable is primarily due to increased service fee billings for our largest client, which has a seasonally high second quarter of business activity, and a $0.4 million increase in credit card charges owed to us as part of the billing and collection services we perform on behalf of our clients. Once collected, these funds are remitted to our clients. The decrease in other current assets primarily relates to the collection of VAT receivables associated with our European operations. Net cash used in operating activities was $1.5 million for the six months ended June 30, 2001, and primarily resulted from cash used to fund operating losses and the net impact of an increase in prepaid expenses and other current assets of $0.4 million and a decrease in accounts payable and accrued expenses of $2.8 million partially offset a decrease in accounts receivable of $2.7 million.

Net cash provided by investing activities for the six months ended June 30, 2002 totaled $1.8 million, representing the net repayment of $2.9 million by Supplies Distributors of our subordinated loan, which totaled $8.8 million at June 30, 2002, offset by capital expenditures of $0.9 million and a $0.2 million increase in our restricted cash balance to $2.9 million, which is to secure our long-term debt and lease financing. Cash provided by investing activities totaled $6.6 million for the six months ended June 30, 2001, which primarily included $9.4 million in net proceeds from the sale of the distribution facility offset by $2.2 million of capital expenditures. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of our facilities, both domestic and foreign. We expect to incur capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $2 to $4 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. A portion of these expenditures may be financed through operating or capital leases. We may elect to modify or defer a portion of such anticipated investments in the event that we do not achieve the revenue necessary to support such investments.

Net cash used in financing activities was approximately $0.3 million for the six months ended June 30, 2002, representing the proceeds from debt and from the issuance of common stock pursuant to our employee stock purchase plan offset by payments on our long-term debt and capital lease obligations. Net cash used in financing activities was approximately $0.1 million for the six months ended June 30, 2001, representing payments on our capital lease obligations offset by the proceeds from issuance of common stock.

During the six months ended June 30, 2002, our working capital decreased to $9.0 million from $11.2 million at December 31, 2001, primarily due to the funding of operations and capital expenditures, offset by the repayment from Supplies Distributors of $2.9 million against our subordinated loan. In order to obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including utilizing capital or operating leases, establishing our own credit facility, entering into asset based lending or factoring programs, or transferring a portion of our subordinated loan balances, due from Supplies Distributors, to third-parties. In conjunction with certain of these alternatives, we may be required to provide certain letters of credit to secure these arrangements. No assurances can be given that we will be successful in obtaining any additional financing or the terms thereof. We currently believe that our cash position and funds generated from operations (including our anticipated revenue growth and/or cost reductions to offset lower than anticipated revenue growth) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements and our lease obligations, and additional subordinated loans to Supplies Distributors, if necessary, for at least the next twelve months.

The following is a schedule of our total contractual cash obligations, which is comprised of operating leases, long-term debt and capital leases, including interest (in millions):

	OPERATING LEASES	LONG-TERM DEBT AND CAPITAL LEASES	TOTAL CONTRACTUAL CASH OBLIGATIONS
Twelve Months Ended June 30, 2003	$ 6,053	$ 1,615	$ 7,668
2004	5,521	1,542	7,063
2005	3,012	921	3,933
2006	2,794	790	3,584
2007	2,254	447	2,701
Thereafter	1,562	389	1,951
Total contractual cash obligations	$ 21,196	$ 5,704	$ 26,900

In support of certain debt instruments and leases, as of June 30, 2002, we had $2.9 million of cash restricted in the form of letters of credit. The letters of credit expire at various dates through July 2004. As described above, we have provided collateralized guarantees to secure the repayment of Supplies Distributors' credit facilities. As of June 30, 2002, the outstanding balance of the credit facilities guaranteed by PFSweb was approximately $57.4 million. These guarantees expire concurrently with the expiration of the underlying credit agreements. To the extent Supplies Distributors or its subsidiaries fails to comply with its covenants, including its monthly financial covenant requirements, and the lenders accelerate the repayment of the credit facility obligations, Supplies Distributors or its subsidiaries would be required to repay all amounts outstanding thereunder. In such event, we would be obligated to perform under those guarantees and repay, to the extent Supplies Distributors or its subsidiaries was unable to, Supplies Distributors' or its subsidiaries credit facility obligations. Additionally, if we were unable to maintain our required level of stockholders' equity of $25.0 million or if we were to violate any of the restricted transactions pursuant to the IBM Credit, IBM Belgium, or Congress agreements, we could also be obligated to perform under these guarantees. Any requirement to perform under our guarantees would have a material adverse impact on our financial condition and results of operations and no assurance can be given that we will have the financial ability to repay all of such guaranteed obligations. In addition, in the event Supplies Distributors or its subsidiaries is, or would be, in default of its obligations under its credit facilities, we are restricted from receiving any payment of our subordinated loans and such event would also have a material adverse impact upon our financial condition and results of operations. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries by its lenders. An over-advance would arise in the event borrowings exceeded the maximum amount available under the eligible borrowing base, as defined. Although the parties to these credit facilities are currently in compliance with all of the covenants and other provisions required thereunder, we may seek the consent of the required lenders to modify, amend or waive some of the restrictions and financial covenants thereunder prior to its maturity in March 2003. No assurance can be given that we will be able to obtain such modifications, amendments or waivers, and the failure to obtain one or more of such modifications, amendments or waivers will have a material adverse effect upon Holdings, Supplies

Distributors and PFSweb and their respective financial condition and operations. PFS has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit. No liabilities have been recorded in the accompanying financial statements for these guarantee obligations. We do not have any other material commercial commitments.

Currently, we believe that we are operating with and incurring costs applicable to excess capacity in both our North American and European operations. We believe that as we add revenue, we will be able to cover our existing infrastructure and public company costs and reach profitability. We currently estimate that the net service fee revenue needed to leverage our infrastructure and reach profitability is approximately $14 million per quarter. No assurance can be given that we can achieve such operating levels, or that, if achieved, we will be profitable in any particular fiscal period.

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

CONTINUED LISTING ON NASDAQ SMALLCAP MARKET

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

This transition occurred in response to NASDAQ Marketplace Rule 4450(a)(5), which requires a minimum bid price of $1.00 for continued listing on the NASDAQ National Market. The SmallCap Market also has a minimum bid price of $1.00 per share. However, as compared to the 90-day grace period provided by the NASDAQ National Market, the SmallCap Market currently has a longer bid price minimum grace period of 180 days from receipt of NASDAQ Delisting Notification (February 14, 2002 for the Company). This grace period extended us through August 13, 2002.

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

SEASONALITY

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

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

INFLATION

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal

Activities," which addresses the financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." We are currently assessing the impact on the consolidated financial statements and will adopt the provisions of this standard by the first quarter of 2003.

CRITICAL ACCOUNTING POLICIES

A description of critical accounting policies is included in footnote 2 to the accompanying unaudited interim condensed consolidated financial statements. For other significant accounting policies, see Note 2 to the consolidated financial statements in our December 31, 2001 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Interest Rate Risk

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

Foreign Exchange Risk

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

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

PART II. OTHER INFORMATION

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

On June 7, 2002, the Company held its Annual Meeting of Stockholders. The following matters were acted upon and votes cast or withheld:

1. Election of three Class III directors:

   Mark C. Layton

   For: 15,268,730 Withheld: 953,587

   Timothy M. Murray

   For: 15,644,386 Withheld: 577,931

   Dr. Neil W. Jacobs

   For: 15,650,814 Withheld: 571,503

2. Approval of the amendment to the Company's Certificate of Incorporation:

   For: 13,987,203 Against: 2,205,559 Abstained: 29,555

3. Appointment of KPMG LLP as auditors for the fiscal year ending December 31, 2002:

   For: 15,905,954 Against: 293,622 Abstained: 22,741

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits:

EXHIBIT NO.	DESCRIPTION OF EXHIBITS
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1	Form of Executive Severance Agreement between the Company and each of its executive officers
99.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

b) Reports on Form 8-K:

Form 8-K filed on May 20, 2002 reporting Item 5, Other Events, that on May 16, 2002 PFSweb, Inc. (the "Company") received a letter from The NASDAQ Stock Market indicating that the Company no longer complied with the $1.00 minimum bid price requirement for continued listing set forth in Marketplace Rule 4450 (c)(5), and that the Company's stock is, therefore, subject to delisting from the Nasdaq National Market. The Company announced that it had requested a hearing from Nasdaq to appeal the Nasdaq stock determination.

SIGNATURES

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

Date: August 14, 2002

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

INDEX TO EXHIBITS

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

EXHIBIT 10.1

EXECUTIVE SEVERANCE AGREEMENT

THIS AGREEMENT is made and entered into as of the ____day of ______, 2001 by and between _______________________ (the "Executive") and PFSWEB, INC. (the "Company"), a corporation organized under the laws of Delaware.

WITNESSETH

WHEREAS, the Executive is presently employed as an officer of the Company; and

WHEREAS, the Company and Executive desire to set forth the terms and conditions regarding the payment of severance to the Executive upon the termination of Executive's employment.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the Company and Executive hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below:

"Board" means the Board of Directors of the Company.

"Qualifying Termination" means the termination by the Company of Executive's employment other than a Termination for Cause, but including termination by reason of the Executive's death or disability. The term "Qualifying Termination" shall not include the termination by Executive of his employment, unless such termination is within 30 days of the reduction by the Company of the Executive's annual base salary from its then current amount, other than a reduction which is part of, and proportionate with, a general reduction of annual base salaries of not less than three-quarters (in number) of the Company's officers.

"Subsidiary" means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% of the assets upon liquidation or dissolution.

"Termination for Cause" means the termination by the Company of Executive's employment as the result of:

(i) the willful and continued failure of Executive to perform substantially his duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness); or

(ii) the willful engaging by Executive in illegal conduct (including without limitation, conviction of a felony) or gross misconduct which is demonstrably and materially injurious to the Company or its affiliates; or

(iii) any breach by Executive of the provisions of Sections 8 or 9 below.

For purposes of this definition, no act or failure to act by Executive shall be considered "willful" unless done or omitted to be done by Executive in bad faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board, based upon the advice of counsel for the Company (or upon the instructions of the Company's chief executive officer or another senior officer of the Company other than the Executive) shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company.

"Years of Service" means the number of full calendar years in which Executive was employed by the Company or Daisytek International Corporation, or, in each case, any Subsidiary thereof as of the effective date of any Qualifying Termination; provided, however, that, for purposes of determining "Years of Service," employment for more than six consecutive months in any calendar year shall be deemed employment for such full calendar year.

2. Severance and Status. (a) In the event of a Qualifying Termination, the Company shall pay to Executive the following amounts:

(i) within 15 days of the effective date of the Qualifying Termination, an amount equal to all annual base salary, bonus, expense reimbursement and other amounts which have accrued and are due and payable as of such date; and

(ii) a severance payment ("Severance Payment") equal to the following:

$$[(S + B) / 4] \times Y$$

where:

S = Executive's then annual base salary as of the effective date of the Qualifying Termination;

B = The bonus amount, if any, that, but for the Qualifying Termination, Executive would have received for the fiscal year in which the effective date of the Qualifying Termination occurs (based upon Executive's targeted bonus amount and the Company's actual results for such fiscal year); and

Y = Executive's Years of Service, but not to exceed 4, unless Executive was designated as a Senior Partner, in which case Years of Service shall not exceed 8.

(b) The Severance Payment shall be reduced by (i) the amount of any loans, advances or other amounts then due and owing by Executive to the Company, (ii) the amount of all wages, bonus and other cash compensation or remuneration received by the Executive for full-time services rendered to an employer or other person or entity during the Payment Period (as hereinafter defined) and (iii) and shall be net of any and all required withholding and taxes. To the extent the Qualifying Termination arises from the disability of Executive, the Severance Payment shall be reduced by the amount of any disability insurance benefits payable to Executive.

(c) The Severance Payment shall be payable in equal monthly installments during the Payment Period. The "Payment Period" shall equal the quotient obtained by dividing (i) Executive's Years of Service, but not to exceed 4 (unless Executive was designated as a Senior Partner, in which case Years of Service shall not exceed 8), by (ii) four.

(d) In the event of a Qualifying Termination, Executive shall continue to be deemed an employee of the Company during the Payment Period for purposes of (i) receiving employee benefits as provided in Section 3 below, (ii) exercising Options as provided in Section 4 below and (iii) all other matters, rights and privileges in which Executive's status as an employee of the Company would entitle Executive to some benefit, right or privilege.

3. Benefits. In the event of a Qualifying Termination, Executive (and Executive's dependents, as applicable) shall continue to be entitled to participate in all employee benefits (including automobile, medical and other benefits) provided to him prior to the Qualifying Termination, upon the same terms and conditions as in effect prior to the Qualifying Termination (including employee contributions), for the number of months (rounded up to whole months) equal to the quotient obtained by dividing (i) the product obtained by multiplying Executive's Years of Service, but not to exceed 4 (unless Executive was designated as a Senior Partner, in which case Years of Service shall not exceed 8), by 3, by (ii) 12 (hereinafter, the "Benefit Period"), subject, however, to any changes or modifications (whether additions or reductions) to such benefits as the Company shall establish during such Benefit Period and which apply to all officers generally; provided, that, if Executive cannot continue to participate in the Company plans providing such benefits, the Company shall otherwise provide such benefits on the same after-tax basis as if continued participation had been permitted. Notwithstanding the foregoing, in the event Executive becomes reemployed with another employer and becomes eligible to receive employee benefits from such employer, the employee benefits described herein shall be secondary to such benefits during the period of Executive's eligibility, but only to the extent that the Company reimburses Executive for any increased cost and provides any additional benefits necessary to give Executive the benefits provided hereunder.

4. Options. In the event of a Qualifying Termination, all options ("Options") to purchase shares of the Company's common stock then held by Executive shall, to the extent not vested, accelerate and immediately vest and shall continue to be exercisable, notwithstanding such Qualifying Termination, for the full stated term thereof.

5. Termination of Employment. This Agreement does not constitute an employment agreement, and the Company shall have the right to terminate Executive's employment at any time, with or without Cause; provided, however, that:

(a) in the event of a Qualifying Termination, the Company shall pay to Executive the Severance Payment and other benefits provided hereunder; and

(b) in the event of a Termination for Cause, the Company shall have no other liability or obligation to Executive hereunder except to pay to Executive, within 15 days of the effective date of the Termination for Cause, all annual base salary, bonus, expense reimbursement and other amounts which have accrued and are due and payable as of such date, reduced by the amount of any loans, advances or other amounts then due and owing by Executive to the Company and net of any and all required withholding and taxes.

For purposes of this Agreement, "Cause" shall not exist unless and until (i) the Company has delivered to Executive a copy of a resolution duly adopted by a majority of the entire Board (excluding Executive if Executive is a Board member) at a meeting of the Board called and held for such purpose (after reasonable notice to Executive and an opportunity for Executive, together with counsel, to be heard before the Board), finding that in the good faith opinion of the Board an event constituting Cause has occurred and specifying the particulars thereof in detail, and (ii) Executive has had a reasonable opportunity (of not less than 90 days) to cure or correct, to the reasonable satisfaction of a majority of the Board (excluding Executive if Executive is a Board member) the event constituting Cause as determined in accordance with the immediately preceding clause (i). The Company must notify Executive of any event constituting Cause within 90 days following the Company's knowledge of its existence or such event shall not constitute Cause under this Agreement.

6. Dispute; Reimbursement of Expenses. If any contest or dispute shall arise under this Agreement involving a Qualifying Termination or involving the failure or refusal of the Company to pay any amount arising in connection with such Qualifying Termination, the Company shall (i) pay interest on the unpaid portion of the Severance Payment, at a fluctuating annual rate of interest equal to the prime rate of Chase Bank of Texas plus two percent (2%) from the effective date of the Qualifying Termination until paid in full and (ii) reimburse Executive, on a current basis, for all reasonable legal fees and expenses, if any, incurred by Executive in connection with such contest or dispute; provided, however, Executive shall be required to repay any such amounts to the Company to the extent that a court or arbitrator issues a final order from which no appeal can be taken, or with respect to which the time period to appeal has expired, setting forth the determination that the position taken by Executive was frivolous or advanced by Executive in bad faith.

7. No Mitigation; Coordination with Change in Control Benefits.

(a) In the event of any Qualifying Termination, Executive shall be under no obligation to seek other employment; provided, however, that in the event Executive does obtain other employment, the offset provisions set forth in Section 2(b)(ii) in respect of any remuneration attributable to any subsequent employment shall apply.

(b) To the extent Executive and the Company have executed and delivered that certain "Change in Control Severance Agreement" (the "COC Severance Agreement"), then, notwithstanding anything contained herein, in the event that (i) Executive's employment shall be terminated under circumstances which constitute a "Qualifying Termination" during the "Termination Period" (as such terms are defined in the COC Severance Agreement), and (ii) Executive shall have fully received, or provision has been made for payment in full of, all of the payments and benefits to which he may be entitled under the terms of the COC Severance Agreement, then, in such event, the provisions of this Agreement shall not apply and neither party shall have any liability or obligation hereunder.

8. Confidentiality. Without limitation of any other agreement of Executive:

(a) Confidential Information. Executive acknowledges the Company's exclusive ownership of all information useful in the business of the Company, its subsidiaries and its affiliates (including its dealings with suppliers, customers and other third parties, whether or not a legal "trade secret"), which at the time or times concerned is not generally known to persons engaged in businesses similar to those conducted by the Company, and which has been or is from time to time disclosed to, discovered by, or otherwise known by the Executive as a consequence of his employment by the Company (including information conceived, discovered or developed by the Executive during his employment with the Company) (collectively, "Confidential Information"). Confidential Information includes, but is not limited to, the following especially sensitive types of information:

(i) the identity, purchase and payment patterns of, and special relations with, the Company's customers;

(ii) the Company's business development and marketing plans;

(iii) the identity, net prices and credit terms of, and special relations with, the Company's suppliers; and

(iv) the Company's finances, except to the extent publicly disclosed.

(b) Proprietary Materials. The term "Proprietary Materials" shall mean all business records, documents, drawings, writings, software, programs and other tangible things which were or are created or received by or for the Company in furtherance of its business, including, but not limited to, those which contain Confidential Information. For example, Proprietary Materials include the following especially sensitive types of materials: applications software, the data bases of Confidential Information maintained in connection with such software, and printouts generated from such data bases; market studies and strategic plans; customer, supplier and employee lists; contracts and correspondence with customers and suppliers; documents evidencing transactions with customers and suppliers; sales calls reports, appointment books, calendars, expense statements and the like, reflecting conversations with any company, customer or supplier; and purchasing, sales and policy manuals. Proprietary Materials also include any such things that are created by Executive or with Executive's assistance and all notes, memoranda and the like prepared using the Proprietary Materials and/or Confidential Information.

(c) Acknowledgements By Executive. While some of the information contained in Proprietary Materials may have been known to the Executive prior to employment with the Company, or may now or in the future be in the public domain, the Executive acknowledges that the compilation of that information contained in the Proprietary Materials has or will cost the Company a great effort and expense, and affords persons to whom Proprietary Materials are disclosed, including the Executive, a competitive advantage over persons who do not know the information or have the compilation of the Proprietary Materials. The Executive further acknowledges that Confidential Information and Proprietary Materials include commercially valuable trade secrets and become the Company's exclusive property when they are conceived, created or received. The Executive shall report to the Company promptly, orally (or, at the Company's request, in writing) all discoveries, inventions and improvements, whether or not patentable, and which either (i) relate to or arise out of any part of the Company's business in which the Executive participates, or (ii) incorporate or make use of Confidential Information or Proprietary Materials (all items referred to in this Section 15 being sometimes collectively referred to herein as the "Intellectual Property"). All Intellectual Property shall be deemed Confidential Information of the Company, and any writing or other tangible things describing, referring to, or containing Intellectual Property shall be deemed the Company's Proprietary Materials. At the request of the Company, at any time, the Executive (or after the Executive's death, the Executive's personal representative) shall, at the expense of the Company, make, execute and deliver all papers, assignments, conveyances, installments or other documents, and perform or cause to be performed such other lawful acts, and give such testimony, as the Company deems necessary or desirable to protect the Company's ownership rights and Intellectual Property.

(d) Confidentiality Duties of Executive. Executive shall, except as may be required by law, at all times while employed by the Company and during the two-year period following any termination of Executive's employment:

(i) comply with all of the Company's reasonable instructions (whether oral or written) for preserving the confidentiality of Confidential Information and Proprietary Materials;

(ii) use Confidential Information and Proprietary Materials only in furtherance of the Company's business;

(iii) exercise appropriate care to advise other employees of the Company (and, as appropriate, subcontractors) of the sensitive nature of Confidential Information and Proprietary Materials prior to their disclosure, and to disclose the same only on a need-to-know basis;

(iv) not copy all or any part of Proprietary Materials, other than in the course of carrying out the Executive's duties and responsibilities for the Company;

(v) not sell, give, loan or otherwise transfer any copy of all or any part of Proprietary Materials to any person who is not an employee of the Company, other than in the course of carrying out the Executive's duties and responsibilities for the Company; and

(vi) not publish, lecture on or otherwise disclose to any person who is not an employee of the Company, other than in the course of carrying out the Executive's duties and responsibilities for the Company, all or any part of Confidential Information or Proprietary Materials; and not use all or any part of any Confidential Information or Proprietary Materials for the benefit of any third party without the Company's written consent.

(e) Return Of Company Property. Promptly following the termination of Executive's employment, the Executive (or in the event of death, the Executive's personal representative) shall promptly surrender to the Company the original and all copies of Proprietary Materials (including all notes, memoranda and the like concerning or derived therefrom), whether prepared by the Executive or others, which are then in the Executive's possession or control. Records of payments made by the Company to or for the benefit of the Executive, the Executive's copy of this Agreement, his rolodexes, personal diaries, personal mementos, personal effects shall not be deemed Proprietary Materials for purposes of this paragraph (e), and other such things, lawfully possessed by the Executive which relate solely to taxes payable by the Executive, employee benefits due to the Executive or the terms of the Executive's employment with the Company, shall also not be deemed Proprietary Materials for purposes of this paragraph.

9. Restrictive Covenant. Without limitation of any other agreement of Executive, and in order to protect the valid business interests of the Company, and in consideration of the Severance Payment and other benefits provided hereunder, Executive covenants and agrees as follows:

(a) For so long as Executive is employed by the Company and during the longer of the Benefit Period or the one year period following the termination of Executive's employment (herein, the "Restricted Period"):

(i) Executive will not, whether directly or indirectly, and whether on his own behalf or as an employee, officer, director, consultant, advisor, agent, representative, shareholder, partner, independent contractor or in any capacity on behalf of any sole proprietorship, corporation, partnership, joint venture, person or other entity which in any way competes with the Company or its business, solicit or attempt to solicit any client or customer of the Company or any person or entity which at any time during the six months prior to the termination of Executive's employment was then a prospective client or customer of the Company;

(ii) Executive will not attempt in any manner to persuade any of the customers of the Company to cease doing business or reduce the amount of business which any of such customers has done or may contemplate doing with the Company; and

(iii) Executive will not, whether directly or indirectly, and whether on his own behalf or as an employee, officer, director, consultant, advisor, agent, representative, shareholder, partner, independent contractor or in any capacity on behalf of any sole proprietorship, corporation, partnership, joint venture, person or other entity, employ any person who at any time during the Restricted Period is or was an employee of the Company.

(b) Executive acknowledges that his position with the Company requires the performance of services which are, and will be, special, unique and extraordinary and such position places him, and will place him, in a position of confidence and trust with the customers of the Company, and accordingly that the restrictive covenants set forth above are necessary in order to protect and maintain the legitimate business interests of the Company. The Executive further acknowledges that the location of the Company's customers and business extends beyond the geographic area of the Company's principal office or state of incorporation and it is reasonable that the restrictive covenants set forth above are not limited by any specific geographic area.

(c) Executive acknowledges that the remedy at law for any breach of the confidentiality provisions of this Agreement or this restrictive covenant by him will be inadequate and that, accordingly, the Company shall, in addition to all other available remedies (including without limitation seeking damages and an accounting for lost profits), be entitled to injunctive relief.

(d) Executive acknowledges that the restrictions imposed herein are fair and reasonable and are required for the protection of the Company and are given as an inducement to the Company to enter into this Agreement and are an integral part of the transactions contemplated herein. The Executive further acknowledges that he has the means, skills and ability to earn a livelihood without violation of the terms of this restrictive covenant. If any of the covenants contained in this Agreement, or any part hereof, is hereinafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions. If any of the covenants contained in this Agreement, or any part hereof, is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or geographic area of such provision and, in its reduced form, said provision shall then be enforceable.

(e) The parties agree that in the event that the courts of any one or more of any state having jurisdiction shall hold the above covenants wholly unenforceable by reason of the breadth of scope or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the right of the Company to the relief provided above in the courts of any other states within the geographical scope of such covenants, as to breaches of such covenants in such other respective jurisdictions, the above covenants as they relate to each state being, for this purpose, severable into diverse and independent covenants.

10. Successors; Binding Agreement.

(a) Subject to the provisions of Section 7(b) above, this Agreement shall not be terminated by any the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries (a "Business Combination"), and in any such event, the provisions of this Agreement shall be binding upon the surviving entity thereof, and such Surviving Corporation shall be treated as the Company hereunder.

(b) Subject to the provisions of Section 7(b) above, the Company agrees that in connection with any Business Combination, it will cause any successor entity to the Company to unconditionally assume (and for any parent corporation in such Business Combination to guarantee), by written instrument delivered to Executive (or his beneficiary or estate), all of the obligations of the Company hereunder. Failure of the Company to obtain such assumption and guarantee at least three days prior to the effectiveness of any such Business Combination (the "Assumption Date") shall be a breach of this Agreement and shall, effective as of the Assumption Date, entitle Executive to compensation and other benefits from the Company in the same amount and on the same terms as Executive would be entitled hereunder by reason of a Qualifying Termination.

(c) This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive shall die while any amounts would be payable to Executive hereunder had Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by Executive to receive such amounts or, if no person is so appointed, to Executive's estate.

11. Notice. For purposes of this Agreement, all notices and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given when delivered or five (5) days after deposit in the United States mail, certified and return receipt requested, postage prepaid, addressed as follows:

If to the Executive: to the most recent address of such Executive on the books and records of the Company; and

If to the Company: PFSweb, Inc., 500 North Central Expressway, Plano, TX 75074;

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

12. Full Settlement. The Company's obligation to make any payments provided for in this Agreement and otherwise to perform its obligations hereunder shall be in full settlement of all claims and potential claims by Executive against the Company and its officers, directors, employees, agents and representatives in respect of the termination of Executive's employment or any other matter relating to Executive's employment by the Company. The Company's obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that the Company may have against Executive or others. Subject to the provisions of Section 7(b) above, the terms and provisions of this Agreement are in addition to, and not in lieu of, the terms and provisions of the COC Severance Agreement, if any, between the Company and Executive.

13. Employment with Subsidiaries. Employment with the Company for purposes of this Agreement shall include employment with any Subsidiary.

14. Survival. The respective obligations and benefits afforded to the Company and Executive shall survive any termination of Executive's employment or the termination of this Agreement.

15. GOVERNING LAW; VALIDITY. THE INTERPRETATION, CONSTRUCTION AND PERFORMANCE OF THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAWS THEREOF, OF SUCH PRINCIPLES OF ANY OTHER JURISDICTION WHICH COULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF DELAWARE. THE INVALIDITY OR UNENFORCEABILITY OF ANY PROVISION OF THIS AGREEMENT SHALL NOT AFFECT THE VALIDITY OR ENFORCEABILITY OF ANY OTHER PROVISION OF THIS AGREEMENT, WHICH OTHER PROVISIONS SHALL REMAIN IN FULL FORCE AND EFFECT.

16. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument.

17. Miscellaneous. No provision of this Agreement may be modified or waived unless such modification or waiver is agreed to in writing and signed by Executive and by a duly authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure by Executive or the Company to insist upon strict compliance with any provision of this Agreement or to assert any right Executive or the Company may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. This Agreement (and, as applicable, the COC Severance

Agreement) constitute the entire agreement among the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the parties.

18. Resolution of Disputes. Any disputes arising under or in connection with this Agreement may, at the election of the Executive or the Company, be resolved by binding arbitration, to be held in Dallas, Texas, in accordance with the rules and procedures of the American Arbitration Association. If arbitration is elected, the Executive and the Company shall mutually select the arbitrator. If the Executive and the Company cannot agree on the selection of an arbitrator, each party shall select an arbitrator and the two arbitrators shall select a third arbitrator who shall resolve the dispute. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Costs of the arbitration shall be borne by the Company. The foregoing shall not restrict the ability of any party to seek injunctive or equitable relief in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by a duly authorized officer of the Company and Executive has executed this Agreement as of the day and year first above written.

PFSWEB, INC.

By:

Its:

EXECUTIVE:

Name:

EXHIBIT 99.1

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

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

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

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

/s/ Mark C. Layton

Mark C. Layton
Chief Executive Officer
August 14, 2002

EXHIBIT 99.2

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

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

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

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

/s/ Thomas J. Madden

Thomas J. Madden
Chief Financial Officer
August 14, 2002