

 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

FORM 10-K

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

 FOR THE FISCAL YEAR ENDED MARCH 31, 2001

COMMISSION FILE NUMBER 000-28275

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

DELAWARE	75-2837058
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Number)

500 NORTH CENTRAL EXPRESSWAY, PLANO, TEXAS	75074
(Address of principal executive offices)	(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered Pursuant to Section 12(g) of the Act:
 COMMON STOCK, PAR VALUE \$.001 PER SHARE

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

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 15, 2001 (based on the closing price as reported by the National Association of Securities Dealers Automated Quotation System) was \$18,453,874.

As of June 15, 2001, there were 17,970,429 shares outstanding of the registrant's Common Stock, \$.001 par value.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the annual meeting of stockholders to be held in 2001, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report relates.

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Unless otherwise indicated, all references to "PFSweb," "the Company," "we," "us" and "our" refer to PFSweb, Inc., a Delaware corporation, and its subsidiaries. All references to "Daisytek" refer to Daisytek International Corporation, a Delaware corporation, and its subsidiaries. Reference in this Report to the Company's fiscal year means the 12 months period ending on March 31 of such year.

The Company has elected to change its fiscal year end date from March 31 to December 31.

PART I

ITEM 1. BUSINESS

GENERAL

PFSweb serves as the "brand behind the brand" for companies seeking to increase their supply chain efficiencies. As a business process outsourcer, offering proven, fast and secure infrastructure solutions for manufacturers, distributors and retailers, we are able to provide our clients with seamless and transparent solutions to support their business strategies. Utilizing our technology and infrastructure expertise, we enable our clients to develop and deploy new products and new business strategies rapidly through our solutions. Our clients engage us as both a consultant to assist them in the design of a business solution, as well as the virtual and physical infrastructure needed to build and operate that solution.

We help our clients define new ways to do business. Each client has unique specifications that require highly customized solutions. Clients turn to us to help address such business issues as customer satisfaction, production capacity requirements, vendor integration, supply chain compression, and international expansion, among others. Our clients are seeking solutions that will provide them substantial supply chain and channel marketing efficiencies, while simultaneously creating a world-class customer service experience.

Our technology and business infrastructure are adaptable, changeable and reliable. This flexibility allows us to custom design solutions to fit the business requirements of our client's strategies. Our revenue is primarily earned from service fees charged to process individual business transactions through our technology and infrastructure capabilities, on our client's behalf. These business transactions may include the answering of a phone call or an e-mail, the processing of an electronic credit card authorization, the receipt and storage of our client's inventory, the shipping of products to our client's customer, the management of a complex set of electronic data transactions designed to keep our client's suppliers and customers accounting records in balance, or the processing of a returned package.

Our capabilities are quite expansive. In an ongoing quest to offer the most necessary and resourceful products to our clients, we are continually developing capabilities to meet the most pressing business issues in the marketplace. Our business objective is to focus on "Leading the Evolution of Outsourcing(sm)." As our tagline suggests, we will continue to evolve our service offerings to meet the needs of the marketplace and the demands of the unique client requirement. We are most successful when we develop a new capability to enable a client to pursue a new initiative and we are then able to leverage that new evolutionary development across other clients or prospects as it becomes "best practice" in the marketplace. Our team of experts designs and builds diverse solutions for Fortune 1000, Global 2000 and brand name clients around a flexible core of technology and physical infrastructure that includes:

- Technology collaboration provided by our suite of software products, called the Entente Suite(SM), that are e-commerce and collaboration tools that enable buyers and suppliers to fully automate their business transactions within their supply chain. Entente supports industry standard collaboration techniques including XML based protocols such as Biztalk and RosettaNet, real-time application interfaces, text file exchanges via secured FTP, and traditional EDI;
- Managed web hosting and web development, including web site design, creation, integration and ongoing maintenance, support and enhancement of web site;
- Order management including order processing from any source of entry, back order processing and future order processing, tracking and tracing, and credit management, all with multiple currency and language options;
- Customer Relationship Management (CRM), including web-enabled customer contact services via world-class call centers utilizing voice, e-mail, and Internet chat communications that are fully integrated with real-time systems and historical data archives to provide complete customer lifecycle management;

- International fulfillment and distribution services, including warehouse management, inventory management, product warehousing, order picking and packing, kitting and light assembly, transportation management and returns or reverse logistics administration;
- Information management, including real-time data interfaces, data exchange services and data mining;
- Billing and collection services, including secure on-line credit card processing, fraud protection, invoicing, credit management and collection;
- Professional consulting services, including a consultative team of experts that tailor solutions to each client and consistently seek out ways to increase efficiencies and produce benefits for the client.

We are headquartered in Plano, Texas where our executive and administrative offices are located as well as our primary technology hosting and development laboratories. We operate world-class call centers from our U.S. facilities located in Plano, Texas, and Memphis, Tennessee, and from our international facilities located in Toronto, Ontario and Liege, Belgium. We have approximately one million square feet of highly automated warehouse and distribution capability located across our facilities in Memphis, Tennessee, Toronto, Ontario and Liege, Belgium. Since our inception we have provided, and in many cases continue to provide, solutions to clients that are positioned as market leaders in a range of industries, including technology manufacturing, clothing, retailing, high security collectibles, consumer goods, pharmaceuticals, housewares and consumer electronics, among others.

Prior to December 1999, we were a wholly-owned subsidiary of Daisytek International Corporation ("Daisytek"), one of the world's largest wholesale distributors of computer supplies, office products, and film and tape media. Our business unit was formed in 1991 to leverage Daisytek's core competencies in customer service, order management, product fulfillment and distribution. From 1996 to 1999, the operations of our business unit were primarily focused in several Daisytek subsidiaries operating collectively as Priority Fulfillment Services, Inc. ("PFS"). In June 1999, Daisytek created a separate wholly owned subsidiary named PFSweb, Inc., a Delaware corporation, to become a holding company for PFS in contemplation of an initial public offering (the "Offering") of PFSweb. In December 1999, we sold 3,565,000 shares of common stock in the Offering and Daisytek contributed to us all the assets, liabilities and equity comprising PFS. PFSweb and Daisytek completed their separation on July 6, 2000 through a pro rata distribution to Daisytek's common stockholders of all of the shares of our common stock which Daisytek then held (which is also known as a "spin-off").

Upon completion of the Offering, we entered into a number of agreements with Daisytek relating to our business and our proposed spin-off from Daisytek. See "Spin-off of PFSweb from Daisytek." In May 2001, certain of these agreements were terminated as part of a transaction in which we sold to Daisytek certain assets used to provide transaction management services to Daisytek. As part of this sale transaction, we also entered into a short term transition services agreement with Daisytek.

INDUSTRY OVERVIEW

Businesses today operate in an environment of rapid technological advancements, increasing competition and continuous pressure to improve operating efficiency. In response to these developments, several significant trends have emerged. For example:

- Manufacturers are looking to restructure their supply chains to maximize efficiency and reduce costs in both business-to-business and business-to-consumer markets and to create a supply chain that is able to support the multiple unique needs of each of their initiatives, including traditional and electronic commerce.
- Retailers and other direct marketers are increasing their emphasis on developing closer customer relationships and analyzing all forms of customer contact through CRM tools.
- Companies in a variety of industries are using outsourcing as a method to address one or more business functions that are not within their core business competencies.

SUPPLY CHAIN MANAGEMENT TREND

As companies continue to focus on improving their businesses and financial ratios, significant efforts and investments are being contemplated and made in order to define ways to maximize supply chain efficiency. Off balance sheet inventory financing, vendor managed inventory, supply chain visibility software solutions, distribution channel skipping, direct to consumer e-commerce sales initiatives, and complex upstream supply chain collaborative technology are products that manufacturers seek to help them achieve greater supply chain efficiency and return on capital. AMR Research predicts that the Supply Chain Management Market, which we believe includes the type of products described above, will increase from \$6.7 billion in 2001 to nearly \$21.1 billion in 2005.

A key business challenge facing many manufacturers and retailers as they evaluate their supply chain efficiency is in determining how the trend for consumers to shop via the Internet in an electronic commerce fashion will effect their traditional commerce business model. While many leading industry experts, like Forrester Research, have tempered their e-commerce growth trend estimates downward over the past year, we believe that companies will still need to continue to strategically plan for the impact that e-commerce and other new technology advancements will have on their traditional commerce business models and their existing technology and infrastructure capabilities. Forrester Research predicts that within three years, online commerce will reach \$6.8 trillion for both business-to-business and business-to-consumer transactions. While the majority of online transactions currently occur in the United States and North America, in the coming years we believe that certain Asian and European nations will experience significant growth in e-commerce transactions as well.

Manufacturers, as buyers of materials, are also imposing new business practices and policies on their supplier partners in order to shift the normal supply chain costs and risk associated with inventory ownership away from their own balance sheets. Through techniques like Vendor Managed Inventory ("VMI") or Consigned Inventory Programs ("CIP"), manufacturers are asking their suppliers, as a part of the supplier selection process, to provide capabilities where the manufacturer need not own, or even possess, inventory prior to the exact moment that unit of inventory is required as a raw material component or for shipping to a customer. In order to be successful for all parties, business models such as these often require a sophisticated collection of technological capabilities that allow for complete integration and collaboration of the information technology environments of both the buyer and supplier. For example, in order for an inventory unit to arrive at the precise required moment in the manufacturing facility, it is necessary for the materials requirement procurement ("MRP") systems of the manufacturer to integrate with the CRM systems of the supplier. When hundreds of supplier partners are involved, this process can become quite complex and technologically challenging. Buyers and suppliers are seeking solutions that utilize XML based protocols like Biztalk, RosettaNet and other traditional EDI standards in order to insure an open systems platform that promotes easier technology integration in these collaborative solutions.

CRM TREND

There is a growing trend among companies in the worldwide marketplace to focus on strengthening their intangible assets. Intangible assets can be broadly defined as including those assets related to a company's brand, intellectual property, key knowledge based personnel and detailed knowledge about its customers. CRM is the technique of widespread data collection and relational data base management of detailed information about an individual customer's habits and desires and utilizing it in such a manner that simultaneously protects the privacy of the individual, enhances the customer's experience with the company and maximizes the lifetime business value of that customer to the company. Through the analysis of customer behavior, companies can tailor their businesses to meet the needs of the customer and therefore increase revenues and improve customer service.

To succeed in CRM, companies need an array of capabilities to support their business. Maintaining a good customer service staff is only the beginning. In order to retain and satisfy their customers and tailor their business to their clients' needs, businesses must be able to:

- Capture and record all customer contacts;
- Document abandonment points and view results of each customer interaction;
- Offer a completely integrated view of all customer activity;
- Develop an operating and technology infrastructure that can be expanded as volumes increase;
- Offer value-added services through all customer touch-points;
- Utilize the information gathered to profile customers for tailored marketing communications;
- Utilize information gathered to adjust offerings to customer demand and desire;
- Compile information on individual customers to anticipate most likely up-sell and cross-sell products;
- Compile information on the profitability of marketing to each customer versus their overall profitability as a customer;
- Apply customer information to increase overall revenue generated;
- Address supply chain management and reconfiguration based on overall customer information compiled; and
- Protect the privacy rights and other desires of the consumer.

Based on the need for companies to harness CRM techniques, analysts expect that CRM solutions development will be one of the major growth areas in the economy over the next several years. AMR Research predicts the CRM market will increase to \$37.8 billion in 2005, up from \$14.1 billion in 2001.

OUTSOURCING TREND

In response to growing competitive pressures and technological innovations, we believe many companies, both large and small, are focusing their critical resources on the core competencies of their business and utilizing business process outsourcing to accelerate their business plans in a cost-effective manner and to perform non-core business functions. Outsourcing provides many key benefits, including the ability to:

- Capitalize on skills, expertise and technology infrastructure that would otherwise be unavailable or expensive given the scale of the business;
- Reduce capital and personnel investments and convert fixed investments to variable costs;
- Increase flexibility to meet changing business conditions and demand for products and services;
- Enhance customer satisfaction and gain competitive advantage;
- Improve operating performance and efficiency; and
- Rapidly enter new business markets or geographic areas.

As a result, the market for outsourcing services has experienced significant growth. International Data Corporation expects that worldwide spending on outsourcing services will grow to more than \$151 billion in 2003.

Typically, outsourcing service providers are focused on a single function, such as information technology, call center management, credit card processing, warehousing or package delivery. This focus creates several challenges for companies looking to outsource more than one of these functions, including the need to manage multiple outsourcing service providers, share information with service providers and integrate that information

into their internal systems. Additionally, the delivery of these multiple services must be transparent to the customer and enable the client to maintain brand recognition and customer loyalty.

Furthermore, traditional commerce outsourcers are frequently providers of domestic only services versus international solutions. As a result, companies requiring global solutions must establish additional relationships with multiple geographic outsourcing parties.

Another vital point for major brand name companies seeking to outsource, is the protection of their brand. When looking for an outsourcing partner to provide infrastructure solutions, brand name companies must find a company that is world-class and can ensure the same quality performance and superior experience that their customers expect from their brands. Working with an outsourcing partner requires finding a partner that can maintain the consistency of their brand image, which is one of the most valuable intangible assets that recognized brand name companies possess.

THE PFSWEB SOLUTION

PFSweb serves as the "brand behind the brand" for companies seeking to increase the efficiencies of all aspects of their supply chain.

Our value proposition is to become an extension of our clients' businesses by delivering a superior experience to increase and enhance sales and market growth, customer satisfaction and customer retention. We act as both a virtual and a physical infrastructure for our clients' businesses, which helps them enhance their traditional commerce operations and meet the operational challenges associated with the deployment of their strategic initiatives. Our integrated solutions enable clients to introduce new products and business programs, and focus on their core business, products and services without making substantial investments in fixed assets, information technology systems, facilities and ongoing personnel. We offer complete, tailored solutions based around a core infrastructure. Our infrastructure is seamlessly integrated with our clients' systems thereby making us transparent to our clients' customers. Our solutions enable our clients to quickly and efficiently implement traditional and e-commerce business initiatives. By utilizing our services, our clients are able to:

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

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

Minimize Investment and Improve Operating Efficiencies. We provide our clients with access to a wide array of services and tailored solutions that cover a broad spectrum of supply chain infrastructure issues, eliminating their need to expend management time and resources to coordinate these services from different providers. By utilizing our services, our clients can capitalize on our economies of scale and expertise to grow their business without incurring the substantial fixed costs necessary to create and maintain their own transaction management infrastructure. Our clients also have the flexibility to purchase any or all of our offered services according to their transaction volume and existing transaction management infrastructure so that they do not have to invest scarce capital resources as their business grows.

Access a Sophisticated Technology Infrastructure. We provide our clients with ready access to a sophisticated technology infrastructure through our Entente Suite, which is designed to interface seamlessly with their systems. We provide our clients with vital product and customer information which can be

immediately available to them on their own systems for use in data mining, analyzing sales and marketing trends, monitoring inventory levels and performing other management functions.

THE PFSWEB STRATEGY

Our objective is to grow by being an international provider of integrated business process outsourcing solutions. As this evolution of our business model continues, we remain focused today on the following fundamentals:

Focus on quality performance for our existing clients. By providing superior operating results, we believe we can expand relationships with existing clients to serve additional product categories and business segments and to provide additional services. Our objective is to integrate ourselves to the point that we become our clients' physical infrastructure. Based upon our clients' needs, we will continue to introduce new services and products. We also intend to continue our commitment to invest in state-of-the-art technology, equipment and systems to provide new, high-quality, innovative solutions to our existing clients and to attract new clients.

Engaging clients with founded business strategies and financial stability. We intend to expand our business by targeting major brand name companies with proven and founded business models that are seeking to adjust their supply chain strategy or introduce new products or business programs into their existing business. We believe these companies will be the leaders in the evolving marketplace, and this focus will provide us with opportunities to grow along with our clients' strategic initiatives. We also seek to expand our business within large brand name retailers seeking to consolidate web and traditional operations or attempting to increase their efficiencies in their traditional business model through our streamlined processes.

Hiring, retaining and training high quality professionals. Our team and their experience are crucial elements in the expansion of our business because of the uniqueness of analyzing each individual client's business case. Hiring and retaining high quality individuals who can design expert business solutions for our prospective clients will allow PFSweb to continue to extend its expertise, knowledge, and strategy to potential clients.

Inventing new technology and operational capabilities. We intend to aggressively expand our market potential by inventing new technology and operational capabilities that will clearly differentiate PFSweb from its competitors. We believe that companies are looking for new efficiencies that they can utilize to reduce costs and save time. Based upon our clients' and prospective clients' needs we will continue to evolve and develop solutions that can produce the most positive changes within their organizations.

Controlling overhead costs while focusing on reducing our own excess infrastructure. We intend to continue our focus on controlling overhead costs in order to maintain our strong financial position. Our objective is to seek new business to absorb current excess capacity and to reduce our overhead costs as a percent of revenue. Through the successful execution of this strategy, it is our objective to create a strong springboard towards achieving sustainable profitability.

To execute these strategies we may, among other things, continue to incur significant operating and marketing expenses, invest in additional technology infrastructure and continue to maintain certain excess capacity. The successful balance of the execution of these strategies over the next year, we believe, should result in the formation of a solid strategic and financial foundation for PFSweb and provide PFSweb a sustainable and profitable business model for the future. Further, with this foundation firmly in place, we can then expand our overall growth more rapidly.

See "Risk Factors" for a complete discussion of risk factors related to our ability to achieve our objectives and fulfill our business strategies.

PFSWEB SERVICES

We offer a comprehensive and integrated set of business infrastructure solutions that are tailored to our clients' specific needs to enable them to quickly and efficiently implement their supply chain strategies. Our services include:

Technology Collaboration. Specifically for e-commerce initiatives, PFSweb has created the Entente Suite(SM), which alludes to the level of electronic cooperation that is possible when we construct solutions with our clients using this technology, and enables everything from order processing and inventory reporting to total e-commerce design and implementation. The Entente Suite comprises three key components -- EntenteDirect(SM), EntenteMessage(SM) and EntenteWeb(SM).

EntenteDirect provides customers with a real-time, user-friendly interface between their system and PFSweb order processing and related functions. Using real-time or batch processes, EntenteMessage is a file delivery solution for clients using warehousing and distribution facilities. EntenteWeb is a one-stop shop for the entire e-commerce process, particularly for companies with unusual needs or specific requests that can't be met by the typical e-commerce development packages. EntenteWeb is particularly focused to enable global commerce strategies with its extensive currency and language functionality.

The Entente Suite operates in an open systems environment and features the use of industry-standard XML, enabling customized e-commerce solutions with minimal changes to a client's or our ERP systems, speeding the implementation process. Additionally, by using XML, the Entente Suite offers companies a more robust electronic information transfer option than text file FTP or EDI.

Managed Web Hosting and Web Development. We offer a highly available and secure managed web hosting solution that encompasses complete creation and maintenance of client web sites. Operating with an in-house creative staff, we customize commerce enabled client sites to their exact specifications and requirements. As with all major brand name companies, consistency within the brand image is vital; therefore, our design engineers create sites that seamlessly integrate and mirror the exact brand image of our clients. Operating on IBM enterprise systems and utilizing our state of the art Entente Suite technology, we can maintain a robust hosting environment where client sites reside and maintain and update all necessary infrastructure.

Specifically through the EntenteWeb package, clients can build an e-commerce initiative with relatively low investment and in a time efficient manner. EntenteWeb is a complete front-to-back e-commerce solution which incorporates components ranging from the look of the user interface to specific business purchasing, warehousing and shipping needs, enabling companies to define in exact terms what they need their e-commerce site to do.

Order Management. Our order management solutions provide clients with interfaces that allow for real-time information retrieval, including information on product orders, shipment, delivery and customer history. These solutions are seamlessly integrated with our Web-enabled customer care centers, allowing for the processing of orders through shopping cart, phone, fax, mail, email, Web chat, and other order receipt methods. As the information backbone for our total supply chain solution, order management services can be used on a stand alone basis or in conjunction with our other business infrastructure offerings, including customer contact, billing or distribution services. In addition, for the business-to-business market, our technology platform provides a variety of order receipt methods that facilitate commerce within various stages of the supply chain. Our systems provide the ability for both our clients' and their customers to track the status of orders at any time. Our services are transparent to our clients' customers and are seamlessly integrated with our clients' internal systems platforms and Web sites. By synchronizing these activities, we can capture and provide critical customer information, including:

- Statistical measurements critical to creating a quality customer experience, containing real-time order status, order exceptions, back order tracking, soft/hard allocation of product based on timing of online purchase and business rules, the ratio of customer inquiries to purchases, average order sizes and order response time;

- Business-to-business supply chain management information critical to evaluating inventory positioning, for the purpose of reducing inventory turns, product flow through and end-consumer demand;
- Reverse logistics information including customer response and rationale for the return or rotation of product;
- Detailed marketing information about what was sold and to whom it was sold, by location and preference; and
- Web traffic reporting showing the number of visits ("hits") received, areas visited, and products and information requested.

Customer Relationship Management. We offer a completely customized CRM solution for clients. Our CRM solution encompasses a full-scale customer contact management service offering, as well as a fully integrated customer analysis program. All customer contacts are captured and customer purchases are documented. Full-scale reporting on all customer transactions is available for evaluation purposes. Through each of our customer touch-points, information can be analyzed and processed for future use in business evaluation and supply chain planning.

An important feature of evolving commerce remains the ability for the customer to speak with a live customer service representative. Our customer care services utilize features that integrate voice, e-mail, data and Internet chat communications to respond to and handle customer inquiries. Our customer care representatives answer various questions, acting as virtual representatives of our client's organization, regarding order status, shipping, billing, returns and product information as well as a variety of other questions. Our Web-enabled customer care technology identifies each customer contact automatically and routes it to the available customer care representative who is specially certified in the client's business and products. Our web-enabled customer care centers are designed so that our customer care representatives are capable of handling many different clients and products in a shared environment, thereby creating economy of scale benefits for our clients as well as highly customized dedicated support models that provide the ultimate customer experience and brand reinforcement. Our advanced technology also enables our representatives to up-sell, cross-sell and inform customers of other products and sales opportunities. The Web-enabled customer care center is fully integrated into the data management and order processing system, allowing full visibility into customer history and customer trends. Through this fully integrated system we are able to provide a complete CRM solution.

International Fulfillment and Distribution Services. An integral part of our business process outsourcing solutions is the warehousing and distribution of inventory owned by our clients. We currently have approximately one million square feet of warehouse space domestically and internationally to store and process our clients' inventory. We receive client inventory in our distribution centers, verify shipment accuracy, unpack, inspect for damage and generally stock for sale the same day. On behalf of our clients, we pick, pack and ship their customer orders and can provide customized packaging, inserts and promotional literature for distribution with customer orders. Based upon our clients' needs, we are able to take advantage of a variety of shipping and delivery options, including next day service. In addition, an increasingly important function that we provide for our clients is reverse supply chain management. We offer a wide array of product return services for our clients, including issuing return authorizations, receipt of product, crediting credit card accounts, and disposition of returned product.

Our distribution facilities contain computerized sorting equipment, powered material handling equipment, scanning and bar-coding systems and automated conveyors, in-line scales and digital cameras to photograph shipment contents for automatic accuracy checking. Our international distribution complexes include several advanced technology enhancements, such as radio frequency technology in product receiving processing to ensure accuracy, an automated package routing system and a "pick to light" paperless order picking system. Our advanced distribution systems provide us with the capability to currently warehouse an extensive number of stock keeping units (SKUs) for our clients ranging from high-end laser printers to cosmetic compacts. Our facilities are flexibly configured to process business-to-business and single pick business-to-consumer orders from the same central location.

During the fiscal quarter ended March 31, 2001, we warehoused, managed and fulfilled approximately \$1 billion (on an annualized basis) in client merchandise and transactions. This does not represent our revenue, but rather the revenue of our clients for whom we provided e-business infrastructure solutions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

While the majority of our clients maintain ownership of their own inventory, we have worked with third-party companies to finance client inventory as well. PFSweb has years of experience in dealing with the issues related to inventory ownership. We support various client third-party consigned, vendor consigned and third-party financed inventory management programs. It is customary in this arrangement for PFSweb to manage the entire customer relationship. Through CIP, we utilize technology resources to time the replenishment purchase of inventory with the simultaneous sale of product to the end user. All interfaces are done electronically and all processes regarding the financial transactions are automated, creating significant supply chain advantages.

PFSweb is experienced in the complex legal, accounting and governmental control issues that can be hurdles in the successful implementation of an off balance sheet inventory program. Our knowledge and experience help clients achieve supply chain benefits while reducing inventory carrying costs.

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

Billing and Collections Services. We offer secure credit and collections services for both business-to-business and business-to-consumer business. We act as virtual and physical financial management department for all potential client needs.

Specifically, for business-to-consumer clients, we offer secure, real-time credit card processing for orders made via a client Web site or through our customer contact center. Additionally, we are able to calculate sales tax, if applicable, for numerous taxing authorities and on a variety of products. Using third-party leading-edge fraud protection services and risk management systems, we can assure the highest level of security and the lowest level of risk for client transactions.

For business-to-business clients, we offer full-service accounts receivable management and collection capabilities, including the ability to generate customized computer-generated invoices in our clients' names. We assist clients in reducing accounts receivable and days sales outstanding, while minimizing costs associated with maintaining an in-house collections staff. In addition, we are able to offer electronic credit services in the format of EDI X12 and XML communications direct from our clients to their vendors, suppliers and retailers.

Professional Consulting Services. As part of the tailored solution for our clients, we offer a full team of experts designated specifically to focus on our clients' businesses. They play a consultative role in which they provide evaluation, analysis and recommendations for the client's business. This team creates customized solutions and devises plans to be implemented in order to increase efficiencies and produce benefits for the client.

Comprised of industry experts from top-tier consulting firms and industry market leaders, the PFSweb team of professional consultants provides client service focus and logistics and distribution expertise. They have built solutions for Fortune 1000 and Global 2000 market leaders in a wide range of industries, including apparel, technology products, telecommunications, cosmetics, housewares, high-value collectibles, sporting goods, pharmaceuticals and several more. Focusing on the evolving infrastructure needs of major corporations and their business initiatives, our team has a solid track record providing consulting services in the areas of supply chain management, distribution and fulfillment, technology interfacing, logistics and customer support.

CLIENTS AND MARKETING

Our target clients include brand name manufacturers looking to quickly and efficiently implement business initiatives or introduce new products or programs, without the burden of modifying or expanding their order processing and distribution infrastructure. We also target retailers seeking to expand their sales through new channels. Our services are available for a multitude of industries and company types, including such clients as:

International Business Machines ("IBM") (multiple divisions supplying printer and media supplies in several geographic areas), Adaptec (computer accessories), a U.S. Federal Governmental unit, Avaya Communication (formerly the Network Enterprise Division of Lucent Technology), Dell, (a computer manufacturer), Emtec (a manufacturer of BASF branded data media and audio visual products), Lancome (a cosmetics division of L'Oreal International), Xerox (printers and printer supplies), Thomson multimedia (RCA branded televisions and consumer electronics), Mary Kay Cosmetics (cosmetics), Pharmacia/Upjohn (pharmaceuticals), NokiaUSA.com (cell phone accessories), and Hewlett-Packard (printers and computer networking equipment).

We target clients through a direct sales force, direct marketing, trade shows and industry conferences, trade journal advertising, and our Web site. We also pursue strategic marketing alliances with consultants and other professional firms to generate referrals and customer leads.

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

TECHNOLOGY

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

We employ technology from a selected group of partners, many of which are also our clients. For example, we deploy IBM e-servers and network printers in appropriate models to run Web site functions as well as order management and distribution functions. We utilize Avaya Communication for telephone switch and call center management functions. We also employ Avaya Communication for our Web-enabled customer care center to interact with customers via voice, e-mail or chat. Avaya Communication technology also allows us to share Web pages between customers and our service representatives. We have the ability to transmit and receive voice, data and video simultaneously on a single network connection to a customer to more effectively serve that customer for our client. Clients' interest in using this technology stems from its ability to allow shoppers to consult with known experts in a way that the customer chooses prior to purchasing. Our sophisticated computer-telephony integration has been accomplished by combining systems software from IBM and Avaya Communication together with our own application development. We use AT&T for our private enterprise network and long distance carrier. We use J.D. Edwards as the software provider for the primary ERP applications that we use in our operational areas and financial areas. We use Rapistan/Demag for our warehouse management, automated conveyor and "pick-to-light" (inventory retrieval) systems and Symbol Technologies/Telxon for our warehouse radio frequency applications.

Today's business models do not often support the focus and speed that eBusiness demands, according to a recent study by Forrester Research. Many internal infrastructures are not sufficient to support the explosive growth in e-business, e-marketplaces, supply chain compression, distribution channel realignment and the corresponding demand for real-time information necessary for strategic decision-making and product fulfillment.

To address this need, we have created the Entente Suite which is a comprehensive software solution, with supporting services and hardware, that enables companies with little or no e-commerce infrastructure to speed their time to market and minimize resource investment and risk, and allows all companies involved to improve the efficiency of their supply chain. The Entente Suite is comprised of three distinct offerings -- EntenteDirect, EntenteMessage and EntenteWeb -- which can stand alone or be combined for a fully customized e-commerce solution depending on the level of direct involvement a company wants to maintain in their e-commerce initiative.

The components of the Entente Suite provide the open platform infrastructure that allows us to create complete e-commerce solutions with our customers. Using the various components of the Entente Suite, we can assist our clients in easily integrating their Web sites or ERP systems to our systems for real-time transaction processing without regard for their hardware platform or operating system. This high-level of systems integration allows our clients to automatically process orders, customer data and other e-commerce information. We can also track information sent to us by the client as it moves through our systems in the same manner a carrier would track a package throughout the delivery process. Our systems enable us to track, at a detailed level, information received, transmission timing, any errors or special processing required and information sent back to the client. The transactional and management information contained within our systems is made available to the client quickly and easily through the Entente Suite.

The Entente Suite operates in an open systems environment and features the use of industry-standard XML messaging in a common message broker that supports all Entente Suite components. Additionally, the support of XML messaging in all client and vendor interfaces enables the creation of customized e-commerce and fulfillment solutions with minimal changes to our client's and our client's vendors' back office systems, speeding the implementation process. Additional connectivity support is provided for most system interfaces using X.12 and EDIFACT EDI, native Java and Windows interfaces, and standard text files via FTP. Our dual system architecture offers complete redundancy and high-availability hardware and software that virtually eliminates any risk of site failure or disruption in information flow to or from our clients e-commerce site or back office systems. This unique architecture also provides a very scaleable e-marketplace platform that can easily support high-volume requirements including seasonal variations. Additionally, because data and information flows through a direct, centralized, connection to our client's system, rather than several translation points, the Entente Suite offers maximum efficiency and real-time information delivery, reducing opportunities for error.

The Entente Suite serves as a transparent interface to our back-office productivity suite which is a customized JD Edwards order management and fulfillment application that runs on IBM e-Servers. It is also designed to integrate with marketplace technologies offered by major marketplace software companies.

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

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

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

for our information systems and maintain a "hot site" under contract with a major provider. Consequently, we can offer very aggressive service level agreements to our clients that exceed industry standards.

COMPETITION

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

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

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

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

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

EMPLOYEES

As of March 31, 2001, we had 575 full-time employees and 14 part-time employees, of which 507 were located in the United States. We are not a party to any collective bargaining agreements, and we have never suffered an interruption of business as a result of a labor dispute. We consider our relationship with our employees to be good.

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

REGULATION

Our business may be affected by current and future governmental regulation. For example, the Internet Tax Freedom Act bars state and local governments from imposing taxes on Internet access or that would

subject buyers and sellers of electronic commerce to taxation in multiple states. This act is in effect through October 2001. If legislation to extend this act or similar legislation is not enacted, Internet access and sales across the Internet may be subject to additional taxation by state and local governments, thereby discouraging purchases over the Internet and adversely affecting the market for our services.

SPIN-OFF OF PFSWEB FROM DAISYTEK

History

The PFSweb business unit was formed in 1991 as a subsidiary of Daisytek named "Working Capital of America" whose purpose was to provide inventory management, direct shipping to end-users, and accounts receivable collections for Daisytek customers and other third parties. Until 1996, this business unit was comprised of operations both at Working Capital of America and at Daisytek. As the business gradually developed, this business unit recognized an opportunity to expand its business and capitalize on Daisytek's strengths in customer service, order management, product fulfillment and distribution, and provide these services on an outsourcing basis. Since 1996, the operations of this business unit have been primarily focused in PFS. PFSweb was formed in 1999 to be a holding company for PFS and to facilitate the Offering and spin-off from Daisytek. In December 1999, we completed the Offering and entered into various agreements with Daisytek relating to the spin-off. Under these agreements, the spin-off was conditioned upon, among other things, the receipt of a ruling by the Internal Revenue Service ("IRS") that, among certain other tax consequences of the transaction, the spin-off qualify as a tax-free distribution for U.S. federal income tax purposes and not result in the recognition of taxable gain or loss for U.S. federal income tax purposes to Daisytek or its shareholders (the "IRS Ruling"). On June 8, 2000, Daisytek received the IRS Ruling and the Daisytek board of directors approved the spin-off and authorized the distribution of 14,305,000 shares of PFSweb common stock to the holders of Daisytek common stock. The distribution was made at the close of business on July 6, 2000 to Daisytek stockholders of record as of June 19, 2000.

PFSweb's Relationship With Daisytek

At the time of the Offering, PFSweb and Daisytek entered into various agreements providing for the separation of their respective business operations. These agreements govern various interim and ongoing relationships between the companies, including the transaction management services that PFSweb provides for Daisytek, the transitional services that Daisytek provides to PFSweb and a tax indemnification and allocation agreement which governs the allocation of tax liabilities and sets forth provisions with respect to other tax matters.

All of the agreements between PFSweb and Daisytek were made in the context of a parent-subsidary relationship and were negotiated in the overall context of the spin-off. Although we generally believe that the terms of these agreements are consistent with fair market values, there can be no assurance that the prices charged to or by each company under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

Master Separation Agreement

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

Transfer of Assets and Liabilities. Following completion of the Offering, Daisytek transferred to PFSweb all of the fixed assets in Daisytek's Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and PFSweb transferred to Daisytek approximately \$5 million in cash and assumed approximately \$0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets. PFSweb also repaid to Daisytek, from the net proceeds of the Offering, the aggregate

sum of approximately \$27 million, representing the outstanding balance of PFSweb's intercompany payable to Daisytek.

Indemnification. PFSweb agreed to indemnify Daisytek against any losses, claims, damages or liabilities arising from the liabilities transferred to PFSweb and the conduct of the PFSweb business after the completion of the Offering. Daisytek agreed to retain, and indemnify PFSweb against, any losses, claims, damages or liabilities arising from the conduct of the PFSweb business prior to the completion of the Offering.

Initial Public Offering and Distribution Agreement

General. PFSweb and Daisytek entered into an Initial Public Offering and Distribution Agreement which governs their respective rights and duties with respect to the Offering and the spin-off, and sets forth certain covenants to which they will be bound for various periods following the Offering and the spin-off.

Preservation of the Tax-free Status of the Spin-off. Daisytek has received a private letter ruling from the Internal Revenue Service to the effect that the spin-off qualify as a tax-free distribution under Section 355 of the Internal Revenue Code to Daisytek and its stockholders. In connection with obtaining such ruling, certain representations and warranties were made regarding Daisytek, PFSweb and their respective businesses. PFSweb has also agreed to certain covenants that are intended to preserve the tax-free status of the spin-off. These covenants include:

Certain Acquisition Transactions. Until two years after the completion of the spin-off, PFSweb has agreed not to enter into or permit any transaction or series of transactions that would result in a person or persons acquiring or having the right to acquire shares of its capital stock that would comprise 50% or more of either the value of all outstanding shares of its capital stock or the total combined voting power of its outstanding voting stock.

Continuation of Active Trade or Business. Until two years after the completion of the spin-off, PFSweb has agreed to continue to conduct its active trade or business (within the meaning of Section 355 of the Code) as it was conducted immediately prior to the completion of the spin-off. During such time, PFSweb has agreed not to:

- liquidate, dispose of or otherwise discontinue the conduct of any substantial portion of its active trade or business; or
- dispose of any business or assets that would cause it to be operated in a manner inconsistent in any material respect with the business purposes for the spin-off as described in the representations made in connection with Daisytek's request for the IRS Ruling.

Continuity of Business. Until two years after the completion of the spin-off, PFSweb has agreed that it will not voluntarily dissolve or liquidate; and, except in the ordinary course of business, neither it nor any of its direct or indirect subsidiaries will sell, transfer, or otherwise dispose of or agree to dispose of assets (including any shares of capital stock of its subsidiaries) that, in the aggregate, constitute more than 60% of its assets.

Intracompany Debt. Until two years after the completion of the spin-off, PFSweb will not be able to have any indebtedness to Daisytek, other than payables arising in the ordinary course of business.

These covenants will not prohibit PFSweb from implementing or complying with any transaction permitted by an IRS ruling or a tax opinion.

Other Covenants Regarding Tax Treatment of the Transactions. Daisytek intends the transfer of assets and liabilities from Daisytek to PFSweb as provided by the master separation agreement (the "Contribution") to qualify as a reorganization under Section 368(a)(1)(D) of the Code (a "D Reorganization"). Until two years after the completion of the spin-off, PFSweb has agreed not to take, or permit any of our subsidiaries to take, any actions or enter into any transaction or series of transactions that would be reasonably likely to jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization, including any action or transaction that would be reasonably likely to be inconsistent with any representation

made in connection with Daisytek's request for the IRS Ruling. PFSweb has also agreed to take any reasonable actions necessary for the Contribution and the spin-off to qualify as a D Reorganization.

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

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

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

Expenses. In general, PFSweb agreed to pay substantially all costs and expenses relating to the Offering, including the underwriting discounts and commissions, and Daisytek agreed to pay substantially all costs and expenses relating to the spin-off.

Tax Matters

Daisytek and PFSweb have entered into a tax indemnification and allocation agreement to govern the allocation of tax liabilities and to set forth agreements with respect to certain other tax matters.

Under the Code, PFSweb ceased to be a member of the Daisytek consolidated group upon the completion of the spin-off.

Daisytek generally will pay all taxes attributable to PFSweb and its subsidiaries for tax periods or portions thereof ending on or before the effective date of the Offering, except to the extent of any accruals thereof on the books and records of PFSweb or its subsidiaries for such taxes under generally accepted accounting principles. Thereafter, for tax periods or portions thereof during which PFSweb was a member of the Daisytek consolidated, combined or unitary group, PFSweb was apportioned its share of the group's income tax liability based on its taxable income determined separately from Daisytek's taxable income, and PFSweb paid its calculated taxes to Daisytek, which will then file a consolidated, combined or unitary return with the appropriate tax authorities. There may be certain U.S. state or local jurisdictions in which PFSweb will file separate income tax returns, not combined or consolidated with Daisytek, for such tax periods. In that

circumstance, PFSweb would file a tax return with the appropriate tax authorities, and pay all taxes directly to the tax authority. PFSweb will be compensated for tax benefits generated by it before tax deconsolidation and used by the Daisytek consolidated group. PFSweb will prepare and file all tax returns, and pay all income taxes due with respect to all tax returns required to be filed by it for all tax periods after it ceased to be a member of the Daisytek consolidated, combined or unitary group.

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

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

Under the tax indemnification and allocation agreement, Daisytek has agreed to indemnify PFSweb against any taxes resulting from the failure of the spin-off to qualify for tax-free treatment, except that PFSweb will be liable for, and will indemnify Daisytek against, any taxes resulting from the failure of the spin-off to qualify for tax-free treatment if it is the result of PFSweb engaging in a "Prohibited Action" or the occurrence of a "Disqualifying Event." Neither PFSweb nor Daisytek have the option to rescind the spin-off if a tax liability results.

A "Prohibited Action" is defined as:

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

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

Transaction Management Services Agreement

PFSweb and Daisytek entered into a transaction management services agreement which sets forth the transaction management services that PFSweb provides for Daisytek. Under this agreement, PFSweb provided a wide range of transaction management services, including information management, order fulfillment and distribution, product warehousing, inbound call center services, product return administration and other services.

As described in "Sale of Assets to Daisytek," effective May 2001, Daisytek and PFSweb terminated the transaction management services agreement. This termination did not affect the existing arrangements with IBM. See "Historical Financial Presentation."

As part of the restructuring of PFSweb's arrangements with IBM, PFSweb has also entered into transaction management agreements with Daisytek to provide transaction management services, on a worldwide basis, in connection with Daisytek's distribution of various IBM products. Under these agreements, PFSweb receives service fees based upon a variable percent of Daisytek's gross profit arising from its IBM product sales. These agreements are coterminous with PFSweb's IBM agreements which, have scheduled expiration dates through September 2001, although IBM may terminate these agreements at any time. Daisytek has indicated that it does not intend to continue distributing IBM product under these agreements

after their scheduled expiration date. We are currently discussing with IBM the continuation of these arrangements and have received a letter of intent from IBM to extend such agreements with PFS for two years subject to obtaining satisfactory financing. There can be no assurance that these discussions will be successful or that our arrangements with IBM will continue or, if they continue, any of the terms thereof. It is possible that new arrangements with IBM may involve cash commitments by the Company, new third party financing, a joint venture with a new master distributor or direct ownership by the Company of the IBM products. We believe that through one of these financing arrangements, we will be able to continue to earn revenues in the future associated with selling or providing services related to IBM product.

Transition Services Agreement

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

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

Generally, PFSweb paid Daisytek for these transition services an amount equal to the cost historically allocated by Daisytek to PFSweb's business, adjusted to reflect any changes in the nature, cost or level of the services so provided. If PFSweb required Daisytek to provide it with any transition service after the expiration of the Transition Period, PFSweb paid Daisytek the fair market value of these services.

Daisytek is no longer providing services to PFSweb under this transition services agreement.

Substitute Stock Options

In connection with the completion of the spin-off, all outstanding Daisytek stock options were replaced with substitute stock options as described below:

Options held by Daisytek employees who were transferred to PFSweb were replaced (at the option holder's election) with either options to acquire shares of PFSweb common stock or options to acquire shares of both Daisytek common stock and PFSweb common stock (which may be exercised separately) (the "Unstapled Options"). Options held by Daisytek employees who remained with Daisytek were replaced (at the option holder's election) with either options to acquire shares of Daisytek common stock or Unstapled Options.

In general, the adjustments to the outstanding Daisytek options were established pursuant to a formula designed to ensure that: (1) the aggregate "intrinsic value" (i.e. the difference between the exercise price of the option and the market price of the common stock underlying the option) of the substitute options did not exceed the aggregate intrinsic value of the outstanding Daisytek stock option which was replaced by such substitute option immediately prior to the spin-off, and (2) the ratio of the exercise price of each option to the market value of the underlying stock immediately before and after the spin-off was preserved.

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

exercise, and will be subject to all of the terms and provisions of, options to acquire shares in the other company as if such holder was an employee of such other company.

No adjustment or replacement was made to outstanding PFSweb stock options as a result of the spin-off.

Sale of Assets to Daisytek

In May 2001, we sold to Daisytek certain of our assets used to provide transaction management services to Daisytek and its subsidiaries for a purchase price of \$11 million (\$10 million of which was paid at closing and \$1 million is payable over a six month period subject to certain potential offsets). As part of this transaction, Daisytek and PFSweb terminated the transaction management services agreement described above. As part of this transaction, we and Daisytek entered into a six-month (subject to optional renewals) transition services agreement under which we agreed to provide Daisytek with certain information technology transition services for a monthly service fee, subject to satisfaction of certain performance criteria.

RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

Our financial information for periods prior to fiscal 2001 may not be representative of our results as a separate company.

The financial information for periods prior to fiscal 2001 included in this Form 10-K may not reflect what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented or what our results of operations, financial position and cash flows will be in the future. This is because:

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

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

Our revenue is dependent upon our clients' business and product sales; all of our client agreements are terminable by the client at will.

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

In particular, after giving effect to the termination of our transaction management services agreement with Daisytek, it is estimated that approximately 21% of our revenue will be derived from our existing arrangements with IBM and Daisytek. Under these arrangements, Daisytek acts as a distributor of various IBM products. These arrangements have various scheduled expiration dates through September 2001 and are otherwise generally terminable at will. Daisytek has indicated that it does not intend to continue to distribute these products under these arrangements after their scheduled expiration dates. We are currently discussing with IBM the continuation of these arrangements and have received a letter of intent from IBM to extend such agreements with PFS for two years subject to obtaining satisfactory financing. There can be no assurance that these discussions will be successful or that our arrangements with IBM will continue or, if they continue, any of the terms thereof. It is possible that new arrangements with IBM may involve cash commitments by the Company, new third party financing, a joint venture with a new master distributor or direct ownership by the Company of the IBM products. We believe that through one of these financing arrangements, we will be able to continue to earn revenues in the future associated with selling or providing services related to IBM product. In addition, for an interim period, it is estimated that 13% of our revenue will be derived from a

transition services agreement with Daisytek under which our fees are subject to potential offsets arising from performance criteria and other factors.

We anticipate incurring significant expenses in the foreseeable future, which may reduce our profitability.

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

Our systems may not accommodate significant growth in our number of clients.

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

Because we must always have sufficient capacity, we may enter into disadvantageous contracts.

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

We face competition from many sources that could adversely affect our business.

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

Our sales and implementation cycles are highly variable and may cause our operating results to vary widely.

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

lengthy approval and competitive evaluation processes that typically accompany significant operational decisions. Additionally, the time required to implement our systems and integrate a new client can range from several weeks to many months. Delays in integrating new clients may affect our revenue and cause our operating results to vary widely.

We are dependent on our key personnel, and we need to hire and retain skilled personnel to sustain our business.

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

We are subject to risks associated with our international operations.

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

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

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

We are uncertain about our need for and the availability of additional funds beyond the funds raised in the Offering.

Our future capital needs are difficult to predict. We may require additional capital in order to take advantage of unanticipated opportunities, including strategic alliances and acquisitions, or to respond to changing business conditions and unanticipated competitive pressures. Additionally, funds from operations may be less than anticipated. Should these circumstances arise, we may need to raise additional funds either by borrowing money or issuing additional equity. We cannot assure you that we will be able to raise such funds on favorable terms or at all. We currently do not have any credit facility in place under which we can borrow funds when needed. If we are unable to obtain additional funds, we may be unable to take advantage of new opportunities or take other actions that otherwise might be important to our business.

We may engage in future strategic alliances or acquisitions that could dilute our existing stockholders, cause us to incur significant expenses or harm our business.

We may review strategic alliance or acquisition opportunities that would complement our current business or enhance our technological capabilities. Integrating any newly acquired businesses, technologies or services may be expensive and time-consuming. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may not be available on terms that are favorable to us and, in the case of equity financings, may result in dilution to our stockholders. In addition, we

have limited ability to issue capital stock during the two-year period following the spin-off. We may not be able to operate any acquired businesses profitably or otherwise implement our growth strategy successfully. If we are unable to integrate any newly acquired entities or technologies effectively, our operating results could suffer. Future acquisitions by us could also result in incremental expenses and the incurrence of debt and contingent liabilities, or amortization of expenses related to goodwill and other intangibles, any of which could harm our operating results.

Our business could be adversely affected by a systems or equipment failure, whether our own or of our clients.

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

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

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

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

A breach of our e-commerce security measures could reduce demand for our services.

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

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

RISKS RELATED TO DAISYTEK

For an interim period, we depend on Daisytek for a significant portion of our revenue.

As part of the asset sale to Daisytek described above, we will be providing information technology transition services for Daisytek under a six-month agreement (with optional renewal periods). During this period, the fees generated under this agreement are estimated to be approximately 13% of our revenue. Our fees under this agreement are subject to certain offsets and satisfaction of certain performance criteria.

We have potential liability to Daisytek for tax indemnification obligations.

Under the terms of our tax indemnification and allocation agreement with Daisytek, we will indemnify Daisytek for any tax liability it suffers arising out of our actions, or certain actions to which we are a party that

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

We have potential liability for Daisytek's tax obligations.

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

We have limited ability to issue common stock after the spin-off.

In order for the spin-off to be tax-free to Daisytek and Daisytek's stockholders, we agreed to certain limitations upon our issuance of capital stock during the two-year period after the spin-off, such as issuing an additional amount of our capital stock in a single transaction or series of transactions related to the spin-off which, when combined with the common stock issued in the offering, could cause a 50% or greater change in the vote or value of our outstanding capital stock. These restrictions may impede our ability to complete transactions using our capital stock or to attract qualified persons to become officers or directors.

RISKS RELATED TO OUR INDUSTRY

If the trend toward outsourcing does not continue, our business will be adversely affected.

Our business could be materially adversely affected if the trend toward outsourcing declines or reverses, or if corporations bring previously outsourced functions back in-house. Particularly during general economic downturns, businesses may bring in-house previously outsourced functions in order to avoid or delay layoffs.

Our market is subject to rapid technological change and to compete we must continually enhance our systems to comply with evolving standards.

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

RISKS RELATED TO OUR STOCK

Our common stock is subject to possible delisting from Nasdaq.

The closing price of our common stock on the Nasdaq National Market on June 25, 2001 was \$0.94. In the event the price of our common stock is below \$1.00 for 30 consecutive trading days, we are subject to a

delisting determination from Nasdaq. In such event, we would expect to list our common stock on the OTC Bulletin Board or another quotation system or exchange on which our shares would qualify. The delisting of our common stock could have a material adverse effect on the market price of, and the efficiency of the trading market for, our common stock.

Our certificate of incorporation, our bylaws, our shareholder rights plan and Delaware law make it difficult for a third party to acquire us, despite the possible benefit to our stockholders.

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

ITEM 2. PROPERTIES

Our PFSweb business is headquartered in a central office facility located in Plano, Texas, a Dallas suburb.

In the U.S., after giving effect to the sale of assets to Daisytek, we operate an approximately eight hundred thousand square foot central distribution complex in Memphis, Tennessee. This complex is located approximately four miles from the Memphis International Airport, where both Federal Express and United Parcel Service operate large hub facilities.

We also operate a 150,000 square foot distribution center in Liege, Belgium, which has many of the same advanced distribution systems and equipment as in our Memphis complex. We also maintain a warehouse and customer care center in Toronto, Canada under a short-term arrangement expiring in September 2001. We currently expect to relocate this facility to another location in Toronto. We operate customer service centers in Memphis, Tennessee; Plano, Texas; Toronto, Canada; and Liege, Belgium. Our call center technology permits the automatic routing of calls to available customer service representatives in several of our call centers.

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

ITEM 3. LEGAL PROCEEDINGS

None

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

None

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is listed and trades on the Nasdaq Stock Market under the symbol "PFSW." The following table sets forth for the period indicated the high and low sale price for the common stock as reported by the Nasdaq National Market:

	PRICE	
	HIGH	LOW
Fiscal Year 2000		
Third Quarter.....	\$52 11/16	\$31 5/8
Fourth Quarter.....	\$40 3/8	\$12
Fiscal Year 2001		
First Quarter.....	\$17 1/8	\$ 3 7/8
Second Quarter.....	\$ 5	\$ 1 59/64
Third Quarter.....	\$ 2 11/16	\$ 17/32
Fourth Quarter.....	\$ 1 19/32	\$ 21/32

As of June 15, 2001, there were approximately 7,500 shareholders of which 111 were record holders of the common stock.

We have never declared or paid cash dividends on our common stock and do not anticipate the payment of cash dividends on our common stock in the foreseeable future. We currently intend to retain all earnings to finance the further development of our business. The payment of any future cash dividends will be at the discretion of our Board of Directors and will depend upon, among other things, future earnings, operations, capital requirements, the general financial condition of the Company and general business conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

HISTORICAL PRESENTATION

The selected consolidated historical statement of operations data for each of the fiscal years ended March 31, 1999, 2000 and 2001, and the selected consolidated balance sheet data as of March 31, 2000 and 2001 have been derived from our audited consolidated financial statements, and should be read in conjunction with those statements and notes, which are included in this Form 10-K. The selected consolidated statement of operations data for the fiscal years ended March 31, 1997 and 1998 and the selected consolidated balance sheet data as of March 31, 1997, 1998 and 1999 have been derived from our audited consolidated financial statements, and should be read in conjunction with those statements, which are not included in this Form 10-K. The financial information for periods prior to fiscal 2001 herein may not necessarily reflect our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto which are included elsewhere in this Form 10-K.

HISTORICAL SELECTED CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEARS ENDED MARCH 31,				
	1997	1998	1999	2000	2001
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues:					
Product revenue.....	\$16,543	\$45,804	\$93,702	\$55,778	\$ --
Service fee revenue.....	1,034	3,539	7,547	30,829	48,258
Other revenue.....	--	--	--	--	2,097
Total revenues.....	17,577	49,343	101,249	86,607	50,355
Costs of revenues:					
Cost of product revenue.....	15,768	43,392	88,335	52,639	--
Cost of service fee revenue.....	596	2,208	5,323	23,475	34,261
Cost of other revenue.....	--	--	--	--	2,470
Total costs of revenues.....	16,364	45,600	93,658	76,114	36,731
Gross profit.....	1,213	3,743	7,591	10,493	13,624
Percent of revenues.....	6.9%	7.6%	7.5%	12.1%	27.1%
Selling, general and administrative expenses.....	1,074	3,705	6,711	17,764	25,446
Income (loss) from operations.....	139	38	880	(7,271)	(11,822)
Interest expense (income), net.....	77	143	374	459	(1,091)
Income (loss) before income taxes.....	62	(105)	506	(7,730)	(10,731)
Income tax expense (benefit).....	38	(30)	214	(1,791)	25
Net income (loss).....	\$ 24	\$ (75)	\$ 292	\$(5,939)	(10,756)
PER SHARE DATA:					
Net income (loss) per share:					
Basic and diluted(a).....	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.38)	\$ (0.60)
Weighted average number of shares outstanding:					
Basic and diluted(a).....	14,305	14,305	14,305	15,479	17,879

(a) Prior to the Offering, which was consummated in fiscal 2000, basic and diluted net income (loss) per share was determined based on net income (loss) divided by the 14,305,000 shares outstanding. There were no potentially dilutive securities outstanding prior to the Offering. For fiscal 2000 and 2001, outstanding options to purchase common shares of PFSweb were anti-dilutive and have been excluded from the weighted average share computation.

	AS OF MARCH 31,				
	1997	1998	1999	2000	2001
CONSOLIDATED BALANCE SHEET DATA:					
Working capital.....	\$5,757	\$1,344	\$14,636	\$27,974	\$20,023
Total assets.....	15,614	20,911	69,057	60,405	58,737
Long-term obligations.....	5,851	1,827	29,029	2,407	3,379
Shareholders' equity (deficit).....	(8)	(155)	581	47,650	37,001

ITEM 7. 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 consolidated financial statements and related notes thereto appearing elsewhere in this Form 10-K.

FORWARD-LOOKING INFORMATION

We have made forward-looking statements in this Report on Form 10-K. 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-K 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;
- 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;
- effects of changes in profit margins;
- 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;
- our dependency on key personnel;
- our ability to raise additional capital;
- the continued listing of our common stock on the NASDAQ; 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. In evaluating these statements, you should consider various factors, including the risks set forth in the section entitled "Risk Factors" beginning on page 21.

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, billing and collection 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 over 30 clients that operate in a range of vertical markets, including technology manufacturing, computer products, printers, cosmetics, fragile goods, high security collectibles, pharmaceuticals, housewares, telecommunications and consumer electronics, among others.

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

Our expenses are comprised of:

- prior to September 30, 1999, cost of product revenue, which consisted of the price of product sold and net freight costs;
- 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 selling, general and administrative expenses, which consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, for the periods prior to fiscal 2001, certain direct contract costs related to our IBM master distributor agreements have been reflected as selling and administrative expenses.

HISTORICAL FINANCIAL PRESENTATION

We believe our historical financial statements for the periods prior to fiscal 2001 may not provide a meaningful comparison to our current and future financial performance for the reasons described below.

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

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

As a result of the restructuring of the IBM agreements, our historical financial statements for the periods prior to fiscal 2001 may not provide a meaningful comparison to our current and future financial statements. This is because, as a master distributor under our prior agreements, we recorded revenue as product revenue as we sold the product to IBM customers. Similarly, our gross profit was based upon the difference between our revenue from product sales and the cost of purchasing the product from IBM. Currently, however, our revenue under the new IBM agreements is service fee revenue that is payable by Daisytek and is based upon a variable percentage of Daisytek's gross profit arising from its IBM product sales.

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

In addition, upon completion of the Offering on December 2, 1999, we entered into a new transaction management services agreement with Daisytek. Under this agreement, we received service fee revenue based upon a percentage of Daisytek's shipped product revenue. Consequently, our historical financial statements reflect the service fee revenue we received from Daisytek under this new agreement for the twelve months ended March 31, 2001, but for only four months in the fiscal year ended March 31, 2000.

Additionally, upon completion of the Offering, Daisytek transferred to us fixed assets and other assets which are being used in our business. We paid to Daisytek a portion of the net proceeds of the Offering and assumed capital and operating lease obligations related to these assets.

RESULTS OF OPERATIONS

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

	FISCAL YEARS ENDED MARCH 31,		
	1999	2000	2001
Product revenue.....	92.5%	64.4%	--%
Service fee revenue.....	7.5	35.6	95.8
Other revenue.....	--	--	4.2
Total revenues.....	100.0	100.0	100.0
Cost of product revenue (as % of product revenue).....	94.3	94.4	--
Cost of service fee revenue (as % of service fee revenue).....	70.5	76.1	71.0
Cost of other revenue (as % of other revenue).....	--	--	117.8
Total costs of revenues.....	92.5	87.9	72.9
Gross profit.....	7.5	12.1	27.1
Selling, general and administrative expenses.....	6.6	20.5	50.5
Income (loss) from operations.....	0.9	(8.4)	(23.4)
Interest expense (income), net.....	0.4	0.5	(2.0)
Income (loss) before income taxes.....	0.5	(8.9)	(21.4)
Income tax expense (benefit).....	0.2	(2.0)	--
Net income (loss).....	0.3%	(6.9)%	(21.4)%

FISCAL YEAR ENDED MARCH 31, 2001 COMPARED TO FISCAL YEAR ENDED MARCH 31, 2000

We believe our historical financial statements for the periods prior to fiscal 2001 may not provide a meaningful comparison to our current and future financial performance for the reasons described above.

Product Revenue. Product revenue was zero for fiscal 2001 as compared to \$55.8 million for fiscal 2000. As stated above, during the quarter ended September 30, 1999, we, Daisytek and IBM entered into new agreements applicable to all of our IBM relationships. As a result of these new agreements, the activities performed under these contracts since that date were accounted for as service fee revenue as opposed to product revenue.

Service Fee Revenue. Service fee revenue was \$48.3 million for fiscal 2001 as compared to \$30.8 million during fiscal 2000, an increase of \$17.5 million or 56.5%. Changes in service fee revenues over prior periods were due to the further expansion of existing contracts, the restructuring of all the IBM contracts, new service contract relationships, our transaction management services agreement with Daisytek which commenced on the completion of the Offering in December 1999 and the impact of certain contract terminations. Service fee revenue from existing contracts increased \$13.3 million and new service contract relationships added \$4.2 million for fiscal 2001. Service fee revenue for fiscal 2001 also includes approximately \$0.5 million of previously deferred revenue associated with terminated contracts. For fiscal 2001, service fee revenue totaling \$27.6 million included fees earned from Daisytek under our new transaction management services agreement, effective as of the Offering, our new IBM contracts that, prior to the September 1999 quarter, would have been reported as product revenue, and for certain subcontracted services. During fiscal 2001 we effected certain contract terminations with service fee revenues of approximately \$8 million and have experienced a longer implementation cycle associated with new larger contracts. As a result of the contract terminations and the asset sale to Daisytek (discussed below in "Liquidity and Capital Resources"), our service fee revenue performance is expected to be lower for the next several quarters.

Other Revenue. Other revenue of \$2.1 million for fiscal 2001 represents the fees charged to clients in conjunction with the early termination of certain contracts.

Cost of Product Revenue. Cost of product revenue was zero for fiscal 2001, as compared to \$52.6 million during fiscal 2000. Cost of product revenue as a percent of product revenue was zero during fiscal 2001 and 94.4% during fiscal 2000. The resulting gross profit margin was 5.6% for fiscal 2000.

Cost of Service Fee Revenue. Cost of service fee revenue was \$34.3 million for fiscal 2001, as compared to \$23.5 million during fiscal 2000, an increase of \$10.8 million or 45.9%. The resulting service fee gross profit was \$14.0 million or 29.0% of service fee revenue, during fiscal 2001 as compared to \$7.4 million, or 23.9% of service fee revenue during fiscal 2000. The increase in gross profit margin for fiscal 2001 resulted primarily from the further expansion of existing contracts and new service contract relationships, including our transaction management services agreement with Daisytek, which commenced on the completion of the Offering in December 1999, and the termination of certain lower margin producing contracts. The gross profit margin also increased because cost of service fee revenue for fiscal 2000 included incremental costs related to a large number of new client implementations during that year. Fiscal 2001 gross profit increases were offset by approximately \$0.5 million of previously deferred costs associated with terminated contracts. In addition, certain excess infrastructure costs, incremental operating costs related to terminated contracts and costs associated with improving service quality had a negative impact on fiscal 2001 gross margin. As a percentage of total revenues, the gross profit margin for fiscal 2001 of 27.1% increased when compared to the 12.1% gross profit margin for fiscal 2000 due to the factors discussed above as well as the restructuring of all of the IBM contracts into service fee contracts, which typically have a higher gross profit margin as a percent of revenue as compared to the gross profit margin as a percent of revenue earned under the IBM master distributor agreements.

Cost of Other Revenue. Cost of other revenue for fiscal 2001 includes costs from certain terminated contracts and are primarily comprised of approximately \$0.4 million of employee severance costs, approximately \$0.5 million of asset impairments from fixed assets which were specific to terminated contracts and have no further value to PFSweb, and approximately \$1.6 million of certain uncollectible amounts receivable from, and liabilities applicable to, clients who have terminated contracts.

Selling, General and Administrative Expenses. SG&A expenses were \$25.4 million for fiscal 2001, or 50.5% of revenues, as compared to \$17.8 million, or 20.5% of revenues, for fiscal 2000. As a result of incremental costs, the restructuring of the IBM agreements and the related reduction in product revenue, SG&A expenses as a percentage of total revenue were higher in fiscal 2001 than in fiscal 2000. SG&A expenses increased as a result of costs incurred to support the higher sales volumes under both new and existing contracts, certain excess infrastructure costs, incremental investments in resources and technology to support our continued growth and public company costs.

Interest Expense (Income), Net. Interest income was \$1.1 million for fiscal 2001 as compared to interest expense of \$0.5 million for fiscal 2000. The weighted average interest rate was 6.7% during fiscal 2000. Our intercompany payable to Daisytek, on which we incurred interest expense during fiscal 2000, was repaid with a portion of the proceeds from our Offering. Subsequent to the Offering, the remaining proceeds have been utilized to fund working capital needs and capital expenditures and generate interest income. In future periods, available cash will be used for future capital expenditures, working capital needs and possible acquisitions, and to the extent that we have excess cash available, we expect to generate interest income.

Income Taxes. For fiscal 2001, we recorded income tax expense associated with our Canadian operations. Because of our limited operating history in Europe, it is uncertain whether it is "more likely than not" that we will be able to utilize our European losses in future periods and therefore we did not record an income tax benefit for the pre-tax losses. To the extent we have future losses in Europe, it will continue to negatively impact our income tax expense (benefit). During fiscal 2001, we recorded an income tax benefit of \$0.1 million related to our ability to utilize our net operating losses to offset future taxes related to deferred tax liabilities. However, since we ceased to be included in Daisytek's consolidated return due to the completion of the spin-off and we have not established a sufficient history of earnings from our U.S. operations, on a stand-alone basis, a valuation allowance has been provided for the remaining net deferred tax asset as of March 31, 2001. For fiscal 2000, although we did not benefit our European losses, as a result of the inclusion of our

U.S. operations in Daisytek's consolidated return prior to the spin-off, our income tax benefit as a percentage of pre-tax loss was 23.2%.

FISCAL YEAR ENDED MARCH 31, 2000 COMPARED TO FISCAL YEAR ENDED MARCH 31, 1999

Product Revenue. Product revenue was \$55.8 million for fiscal 2000 as compared to \$93.7 million for fiscal 1999. As stated above, during the quarter ended September 30, 1999, we, Daisytek and IBM entered into new agreements applicable to all of our IBM relationships. As a result of these agreements, the activities performed under these contracts since that date were accounted for as service fee revenue as opposed to product revenue. Prior to the impact of these new agreements, product revenue had increased as compared to prior periods due to the addition of our European IBM distribution agreement as well as growth from the existing North America IBM master distributor agreements.

Service Fee Revenue. Service fee revenue was \$30.8 million for fiscal 2000 as compared to \$7.5 million during fiscal 1999, an increase of \$23.3 million or 308.5%. The increase in service fee revenues over prior periods was due to the further expansion of existing contracts, the restructuring of all the IBM contracts, and new service contract relationships, including our new transaction management services agreement with Daisytek which commenced on the completion of the Offering in December 1999. Service fee revenue from existing contracts increased \$1.3 million and new service contract relationships added \$22.0 million for fiscal 2000. For fiscal 2000, new service fee revenue totaling \$11.6 million is for fees earned from Daisytek under our new transaction management services agreement, effective as of the Offering, and our new IBM contracts that, prior to the September 1999 quarter, would have been reported as product revenue.

Cost of Product Revenue. Cost of product revenue was \$52.6 million for fiscal 2000, as compared to \$88.3 million during fiscal 1999, a decrease of \$35.7 million, or 40.4%. Cost of product revenue as a percent of product revenue was 94.4% during fiscal 2000, and 94.3% during fiscal 1999. The resulting gross profit margin was 5.6% and 5.7% for fiscal 2000 and 1999, respectively.

Cost of Service Fee Revenue. Cost of service fee revenue was \$23.5 million for fiscal 2000, as compared to \$5.3 million during fiscal 1999, an increase of \$18.2 million or 343.4%. The resulting service fee gross profit margin was 23.9% during fiscal 2000, and 29.5% during fiscal 1999. During fiscal 2000, cost of service fee revenue increased related to a large number of new client implementations.

Gross Profit. Gross profit was \$10.5 million, or 12.1% of revenues, for fiscal 2000, as compared to \$7.6 million, or 7.5% of revenues, for fiscal 1999. The increase in total gross profit resulted primarily from the further expansion of existing contracts and new service contract relationships, including our new transaction management services agreement with Daisytek, which commenced on the completion of the Offering in December 1999. The increase in gross profit as a percentage of revenues resulted from the restructuring of all of the IBM contracts into service fee contracts, which typically have a higher gross profit margin as a percent of revenue as compared to the gross profit margin as a percent of revenue earned under the IBM master distribution agreements.

Selling, General and Administrative Expenses. SG&A expenses were \$17.8 million for fiscal 2000, or 20.5% of revenues, as compared to \$6.7 million, or 6.6% of revenues, for fiscal 1999. As a result of incremental costs, the restructuring of the IBM agreements and the related reduction in product revenue, SG&A expenses as a percentage of total revenue were higher in fiscal 2000 than in fiscal 1999. SG&A expenses increased as a result of costs incurred to support the higher sales volumes under both new and existing contracts and incremental investments in resources and technology to support our continued growth. SG&A expenses also increased as a result of certain incremental charges effected during fiscal 2000.

Interest Expense, Net. Interest expense was \$0.5 million for fiscal 2000 as compared to \$0.4 million for fiscal 1999. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements and for capital expenditures, offset by interest income earned subsequent to the Offering. The weighted average interest rate was 6.7% during fiscal 2000 and 1999. In December 1999, we used a portion of the funds from the Offering to repay our intercompany payable balance to Daisytek and purchase certain assets from Daisytek.

Income Taxes. Our income tax benefit as a percentage of pre-tax loss was 23.2% for fiscal 2000 as compared to an income tax provision as a percentage of pre-tax income of 42.3% for fiscal 1999. We were included in Daisytek's consolidated tax return for all periods through the date of the spin-off from Daisytek. As part of the tax sharing agreement entered into with Daisytek, we were reimbursed for any income tax benefit derived from our inclusion in the consolidated return. However, any loss generated by us in Europe is not included in the Daisytek consolidated return and may not be utilized at a consolidated level. Accordingly, in fiscal 2000, we recorded a benefit for the pre-tax loss generated in the U.S., however, because of our limited operating history in Europe, it was uncertain whether it is "more likely than not" that we would be able to utilize our European losses in future periods and therefore we did not record an income tax benefit for those pre-tax losses. Additionally, since we ceased to be included in Daisytek's consolidated return upon completion of the spin-off and we had not established a sufficient history of earnings, on a stand-alone basis, a valuation allowance was provided for the net deferred income tax asset as of March 31, 2000. For fiscal 1999, the income tax percentage was impacted by the differences between our U.S. and foreign subsidiaries, which are taxed at different rates.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 2001, we utilized our capital resources, which consisted primarily of the remaining proceeds of the Offering, to fund operations and capital expenditures. As a result, working capital decreased to \$20.0 million at March 31, 2001 from \$28.0 million at March 31, 2000. Prior to fiscal 2001, as a subsidiary of Daisytek, we historically funded our business through intercompany borrowings from Daisytek. As a result of the Offering, we repaid such intercompany borrowings. We may seek our own credit facility in order to provide additional financing in the future, in addition to our current cash position of over \$22 million. We currently believe that our cash position will satisfy our known operating cash needs and our working capital and capital expenditure requirements for the next twelve months. Our cash position was further increased as a result of an asset sale, described below, subsequent to March 31, 2001.

Net cash used in financing activities was \$0.2 million in fiscal 2001, representing payments on our capital lease obligations partially offset by the proceeds from issuance of common stock. Net cash provided by financing activities was \$24.0 million for fiscal 2000. In December 1999, we successfully completed our Offering and sold 3,565,000 shares of common stock, including the underwriters over-allotment, at \$17 per share. Net proceeds from the offering aggregated approximately \$53.0 million. Proceeds were used to repay an intercompany payable to Daisytek of approximately \$27 million and to acquire from Daisytek all fixed assets in its Memphis distribution facility, as well as certain assets providing information technology services for approximately \$5 million, and we received the stock of several subsidiaries of Daisytek representing the business operations of PFSweb. Net cash provided by financing activities was \$27.7 million for fiscal 1999. During fiscal 1999, cash provided by Daisytek was used to fund the incremental financing of one of our client's inventory, our capital expenditures and working capital requirements.

Net cash used in operating activities was \$0.2 million for fiscal 2001, and primarily reflected an increase in accounts payable and accrued expenses of \$7.9 million and a decrease in prepaid expenses and other current assets of \$5.7 million and accounts receivable of \$0.6 million. The increase in accounts payable is primarily attributable to \$7.2 million of VAT collections that are due one of our clients. The increase in other current assets primarily relates to receivables associated with our European operations including a \$1.1 million note receivable from a terminated client, a \$1.6 million receivable related to an asset based governmental grant and VAT receivables of \$2.3 million. Cash flows provided by operating activities totaled \$10.6 million for fiscal 2000 and primarily reflected a reduction in accounts payable and accrued expenses of \$25.0 million, accounts receivable of \$8.3 million and inventory of \$29.9 million. These reductions primarily related to the transfer of the IBM related working capital assets from us to Daisytek in conjunction with the new IBM agreements. Net cash used in operating activities was \$12.3 million for fiscal 1999. Working capital requirements increased in fiscal 1999 primarily due to product revenue growth under our North American IBM master distributor agreements. We also entered into new master distributor agreements in December 1998 to provide services for IBM in Europe. Our North American revenue growth, as well as the new European contracts, resulted in significant increases in IBM contract related accounts receivable, inventory and accounts payable.

Cash used in investing activities for fiscal 2001 totaled \$2.1 million. Capital expenditures were \$5.5 million for fiscal 2001. Partially offsetting these capital expenditures was the full repayment of other receivables. Cash used in investing activities was \$10.2 million for fiscal 2000. During fiscal 2000, our capital expenditures totaled \$21.2 million and included the asset purchase from Daisytek at the completion of the Offering, our new Belgium distribution facility, and the expansion of U.S. sales and distribution facilities. Partially offsetting these capital expenditures was a reduction of other receivables. Cash used in investing activities for fiscal 1999 totaled \$14.9 million, and was primarily a result of a long-term contractual agreement with one of our clients pursuant to which, as part of the services that we provide, we financed certain of the client's inventory. Capital expenditures were \$2.7 million for fiscal 1999. 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 significant capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately \$4 to \$7 million. Some of these expenditures may be financed through operating or capital leases.

On May 25, 2001, the Company completed the sale of certain assets to Daisytek pursuant to an Asset Purchase Agreement (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 (\$10 million of which was paid at closing on May 25, 2001 and \$1 million of which is payable over six months, subject to certain potential offsets) included a release by the Company and Daisytek of certain transaction management services agreements previously entered into between the Company and Daisytek and a Daisytek subsidiary. Proceeds of \$10 million (excluding the \$1 million deferred proceeds) were received for assets with an approximately \$4.5 million net book value with a resulting \$5.0 million gain, after closing costs of \$0.5 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 will provide Daisytek with certain transitional and information technology services for which the Company will receive monthly service fees, subject to satisfaction of certain performance criteria.

After giving effect to the termination of our agreement with Daisytek, approximately 21% of our revenue will be derived from our existing arrangements with IBM. Under these arrangements, Daisytek acts as a distributor of various IBM products. These arrangements have various scheduled expiration dates through September 2001 and are otherwise generally terminable at will. Daisytek has indicated that it does not intend to continue to distribute these products under these arrangements after their scheduled expiration date. We are currently discussing with IBM the continuation of these arrangements and have received a letter of intent from IBM to extend such agreements with PFS for two years subject to obtaining satisfactory financing. There can be no assurance that these discussions will be successful or that our arrangements with IBM will continue or, if they continue, any of the terms thereof. It is possible that new arrangements with IBM may involve cash commitments by the Company, new third party financing, a joint venture with a new master distributor or direct ownership by the Company of the IBM products. We believe that through one of these financing arrangements, we will be able to continue to earn revenues in the future associated with selling or providing services related to IBM product.

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 that we will be able to more fully cover our existing infrastructure and public company costs and reach profitability. 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 to expand our services or capabilities in connection with our efforts to grow our business. We currently have no binding agreements to acquire any such businesses. Should we be successful in acquiring other businesses, we may require additional financing.

Acquisitions involve certain risks and uncertainties. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire, whether we will be able to obtain financing to complete an acquisition, or whether we will be successful in operating the acquired business.

INVENTORY MANAGEMENT

Prior to September 30, 1999, our agreements with IBM were structured as master distributor agreements. The transaction management services we provided for IBM under these agreements included purchasing and reselling IBM product inventory to IBM customers. During the quarter ended September 30, 1999, we restructured our agreements with IBM so that we will no longer be purchasing or reselling the IBM product inventory. In addition, we transferred to Daisytek the IBM-related customer accounts receivables, inventory and accounts payable. We do not currently own any product inventory.

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 slightly more significant in the quarter ended December 31.

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

INFLATION

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, requires that an entity recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be used to hedge certain types of transactions, including foreign currency exposures of a net investment in a foreign operation. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, with initial application as of the beginning of an entity's fiscal quarter. The adoption of SFAS No. 133 as of April 1, 2001 did not have a material impact on our financial position or consolidated financial statements.

ITEM 7a. 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 a capital lease obligation, 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

We are subject to market risk associated with changes in foreign currency exchange rates. In order to manage these risks, beginning in the year ended March 31, 1999, certain of our risks were considered in Daisytek's corporate risk management program, which included entering into certain forward currency exchange contracts. Through fiscal 2000, we did not enter into any such contracts on our own. At March 31, 2001, the Company had one foreign currency hedge with a notional amount of 8 million Euros in place that expired in April 2001. The settlement of this hedge did not have a material impact on the Company's financial position or consolidated financial statements.

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. In order to mitigate foreign currency rate risk, we will consider entering into forward currency exchange contracts to hedge our net investment and long-term intercompany payable balances.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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FINANCIAL STATEMENT SCHEDULE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Shareholders of PFSweb, Inc.:

We have audited the accompanying consolidated balance sheet of PFSweb, Inc. and subsidiaries as of March 31, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule as of and for the year ended March 31, 2001. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PFSweb, Inc. and subsidiaries as of March 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule as of and for the year ended March 31, 2001, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Dallas, Texas
May 3, 2001, except for Notes 7 and 11
to which the date is as of June 28, 2001

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of PFSweb, Inc.:

We have audited the accompanying consolidated balance sheet of PFSweb, Inc. (a Delaware corporation) and subsidiaries (see Note 1) as of March 31, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PFSweb, Inc. and subsidiaries as of March 31, 2000, and the results of their operations and their cash flows for each of the two years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Dallas, Texas,
May 4, 2000

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

	MARCH 31,	
	2000	2001
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$24,896	\$ 22,266
Accounts receivable, net of allowance for doubtful accounts of \$690 and \$279 at March 31, 2000 and 2001, respectively.....	8,892	7,294
Other receivables.....	3,482	4,972
Prepaid expenses and other current assets.....	1,052	3,848
	-----	-----
Total current assets.....	38,322	38,380
	-----	-----
PROPERTY AND EQUIPMENT, net.....	21,555	20,253
OTHER ASSETS.....	528	104
	-----	-----
Total assets.....	\$60,405	\$ 58,737
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of capital lease obligations.....	\$ 274	\$ 300
Trade accounts payable.....	6,549	11,051
Accrued expenses.....	3,525	7,006
	-----	-----
Total current liabilities.....	10,348	18,357
	-----	-----
CAPITAL LEASE OBLIGATIONS, less current portion.....	2,407	2,139
	-----	-----
OTHER LIABILITIES.....	--	1,240
	-----	-----
COMMITMENTS AND CONTINGENCIES (Notes 5 and 7)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding at March 31, 2000 and 2001.....	--	--
Common stock, \$0.001 par value; 40,000,000 shares authorized; 17,870,000 and 17,907,378 shares issued and outstanding at March 31, 2000 and 2001, respectively...	18	18
Additional paid-in capital.....	50,673	50,884
Accumulated deficit.....	(2,836)	(13,592)
Accumulated other comprehensive loss.....	(205)	(309)
	-----	-----
Total shareholders' equity.....	47,650	37,001
	-----	-----
Total liabilities and shareholders' equity.....	\$60,405	\$ 58,737
	=====	=====

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

PFSWEB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEARS ENDED MARCH 31,		
	1999	2000	2001
	-----	-----	-----
REVENUES (Note 5):			
Product revenue.....	\$ 93,702	\$55,778	\$ --
Service fee revenue.....	7,547	30,829	48,258
Other revenue.....	--	--	2,097
Total revenues.....	----- 101,249	----- 86,607	----- 50,355
COSTS OF REVENUES:			
Cost of product revenue.....	88,335	52,639	--
Cost of service fee revenue.....	5,323	23,475	34,261
Cost of other revenue.....	--	--	2,470
Total costs of revenues.....	----- 93,658	----- 76,114	----- 36,731
Gross profit.....	7,591	10,493	13,624
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	6,711	17,764	25,446
Income (loss) from operations.....	880	(7,271)	(11,822)
INTEREST EXPENSE (INCOME), net.....	374	459	(1,091)
Income (loss) before income taxes.....	506	(7,730)	(10,731)
INCOME TAX EXPENSE (BENEFIT).....	214	(1,791)	25
NET INCOME (LOSS).....	----- \$ 292	----- \$(5,939)	----- \$(10,756)
NET INCOME (LOSS) PER SHARE:			
Basic and diluted.....	----- \$ 0.02	----- \$ (0.38)	----- \$ (0.60)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic and diluted.....	----- 14,305	----- 15,479	----- 17,879

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

PFSWEB, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	DAISYTEK'S NET EQUITY INVESTMENT	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT					
Balance, March 31, 1998.....	--	\$ --	\$ --	\$ --	\$ (100)	\$ (55)	\$ (155)
Net income.....	--	--	--	--	292	--	292
Contributed capital.....	--	--	--	--	520	--	520
Other comprehensive loss -- foreign currency translation adjustment.....	--	--	--	--	--	(76)	(76)
Comprehensive income.....							
Balance, March 31, 1999.....	--	--	--	--	712	(131)	581
Net loss prior to initial public offering.....	--	--	--	--	(3,103)	--	(3,103)
Contribution of Daisytek's net equity investment.....	--	--	(2,391)	--	2,391	--	--
Net loss subsequent to initial public offering....	--	--	--	(2,836)	--	--	(2,836)
Issuance of common stock to Daisytek.....	14,305,000	14	6	--	--	--	20
Initial public offering, net of issuance costs.....	3,565,000	4	53,010	--	--	--	53,014
Stock based compensation expense.....	--	--	48	--	--	--	48
Other comprehensive loss -- foreign currency translation adjustment.....	--	--	--	--	--	(74)	(74)
Comprehensive loss.....							
Balance, March 31, 2000.....	17,870,000	\$ 18	\$ 50,673	\$ (2,836)	\$ --	\$ (205)	\$ 47,650
Net loss.....	--	--	--	(10,756)	--	--	(10,756)
Reduction in costs of initial public offering.....	--	--	148	--	--	--	148
Stock based compensation expense.....	--	--	38	--	--	--	38
Employee stock purchase plan.....	37,378	--	25	--	--	--	25
Other comprehensive loss -- foreign currency translation adjustment.....	--	--	--	--	--	(104)	(104)
Comprehensive loss.....							
Balance, March 31, 2001.....	17,907,378	\$ 18	\$ 50,884	\$ (13,592)	\$ --	\$ (309)	\$ 37,001

COMPREHENSIVE
INCOME
(LOSS)

Balance, March 31, 1998.....	
Net income.....	\$ 292
Contributed capital.....	
Other comprehensive loss -- foreign currency translation adjustment.....	(76)
Comprehensive income.....	\$ 216
Balance, March 31, 1999.....	
Net loss prior to initial public offering.....	\$ (3,103)
Contribution of Daisytek's net equity investment.....	
Net loss subsequent to initial public offering....	(2,836)
Issuance of common stock to Daisytek.....	
Initial public offering, net of issuance costs.....	
Stock based compensation expense.....	
Other comprehensive loss -- foreign currency translation adjustment.....	(74)
Comprehensive loss.....	\$ (6,013)

Balance, March 31, 2000.....	
Net loss.....	\$(10,756)
Reduction in costs of initial public offering.....	
Stock based compensation expense.....	
Employee stock purchase plan.....	
Other comprehensive loss -- foreign currency translation adjustment.....	(104)

Comprehensive loss.....	\$(10,860)
	=====
Balance, March 31, 2001.....	

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

PFSWEB, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	FISCAL YEARS ENDED MARCH 31,		
	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss).....	\$ 292	\$ (5,939)	\$(10,756)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	275	2,373	6,658
Provision for doubtful accounts.....	344	458	2,203
Deferred income taxes.....	(192)	453	109
Non-cash compensation expense.....	--	48	38
Changes in operating assets and liabilities:			
Accounts receivables.....	(13,615)	8,324	(607)
Inventories, net.....	(18,630)	29,856	--
Prepaid expenses and other current assets.....	(1,001)	(55)	(5,693)
Accounts payable and accrued expenses.....	20,231	(24,954)	7,871
Net cash provided by (used in) operating activities....	(12,296)	10,564	(177)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment.....	(2,658)	(18,521)	(5,542)
(Increase) decrease in other receivables.....	(12,264)	8,358	3,417
Net cash used in investing activities.....	(14,922)	(10,163)	(2,125)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contribution.....	520	--	--
Issuance of common stock to Daisytek.....	--	20	--
Net proceeds from initial public offering of common stock.....	--	53,014	--
Net proceeds from issuance of common stock.....	--	--	25
Repayment on capital lease obligations.....	--	(15)	(242)
Increase (decrease) in payable to Daisytek.....	27,202	(29,029)	--
Net cash provided by (used in) financing activities....	27,722	23,990	(217)
EFFECT OF EXCHANGE RATES ON CASH.....	(30)	(82)	(111)
NET INCREASE (DECREASE) IN CASH.....	474	24,309	(2,630)
CASH AND CASH EQUIVALENTS, beginning of period.....	113	587	24,896
CASH AND CASH EQUIVALENTS, end of period.....	\$ 587	\$ 24,896	\$ 22,266
SUPPLEMENTAL CASH FLOW INFORMATION			
Fixed assets acquired under capital leases.....	\$ --	\$ 2,696	\$ --
Governmental grant receivable for capital expenditures (Note 2).....	\$ --	\$ --	\$ 1,564

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

PFSWEB, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OVERVIEW AND BASIS OF PRESENTATION:

In June 1999, Daisytek International Corporation ("Daisytek") created a separate wholly-owned subsidiary named PFSweb, Inc. (the "Company" or "PFSweb"), a Delaware corporation, to become a holding company for certain of Daisytek's wholly-owned subsidiaries ("PFS") in contemplation of an initial public offering of PFSweb. Daisytek contributed \$20,000 for 14,305,000 shares of common stock of PFSweb. In December 1999, PFSweb sold 3,565,000 shares of common stock at a price of \$17 per share (the "Offering"). Net proceeds from the Offering aggregated approximately \$53.0 million and were used to repay the Company's payable to Daisytek and to acquire from Daisytek all fixed assets in its Memphis distribution facility as well as certain assets providing information technology services for approximately \$5 million (see Note 5). Simultaneous with the completion of the Offering, Daisytek contributed to PFSweb all the assets, liabilities and equity comprising PFS.

On June 8, 2000, the Daisytek Board of Directors approved the separation of PFSweb from Daisytek by means of a tax-free dividend of Daisytek's remaining ownership of PFSweb after receiving a favorable ruling from the IRS to the effect that the distribution by Daisytek of its shares of PFSweb stock would be tax-free to Daisytek and to Daisytek's shareholders for U.S. federal income tax purposes. The distribution of Daisytek's 14,305,000 shares of PFSweb (the "Spin-off") occurred at the close of business on July 6, 2000, to Daisytek shareholders of record as of June 19, 2000.

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, billing and collection services, information management, and international distribution services.

For all periods prior to the Spin-off, the accompanying consolidated financial statements are presented on a carve-out basis and reflect the consolidated historical results of operations, financial position and cash flows of the Company. For all periods presented, certain expenses reflected in the consolidated financial statements include an allocation of certain Daisytek corporate expenses and infrastructure costs (see Note 5). Management believes that the methods used to allocate expenses are reasonable, although the cost of services could be higher if obtained from other sources. In addition, certain service fee revenue and cost of service fee revenue have been reflected by PFSweb for services subcontracted to PFSweb by Daisytek. The service fee revenue, cost of service fee revenue and allocated expenses have been reflected on bases that Daisytek and PFSweb consider to be a reasonable reflection of the services provided and revenue earned by PFSweb and the utilization of services provided by Daisytek and the benefit received by PFSweb. The financial information included herein may not reflect the consolidated financial position, operating results, shareholders' equity and cash flows of PFSweb in the future or what it would have been had PFSweb been a separate, stand-alone entity during the periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

Prior to the Offering, the financial position, results of operations and cash flows of PFS were referred to as the combined financial statements of PFSweb. Subsequent to the Offering and for all periods presented herein, the financial position, results of operations and cash flows of the Company are referred to as the consolidated financial statements of PFSweb, Inc. and subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates. The allocation of certain expenses (see Notes 1 and 5) in these consolidated financial statements also required management estimates and assumptions.

Revenue and Cost Recognition

For fiscal 1999 and 2000, the Company recognized product revenue upon shipment of product to customers and provided for estimated returns and allowances and recognized cost of product revenue upon shipment of product to customers.

The Company's service fee revenues primarily relate to its (1) distribution services and (2) order management/customer care services.

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 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 included in the distribution or order management fees which are recognized as services are performed. The service fee revenue associated with these activities are currently not significant and are incidental to the above-mentioned services.

Other revenue of \$2.1 million for fiscal 2001 represents the fees charged to clients in conjunction with the early termination of certain contracts. Cost of other revenue for fiscal 2001 includes approximately \$0.4 million of employee severance costs, approximately \$0.5 million of asset impairments from fixed assets which were specific to terminated contracts and have no further value to PFSweb, and approximately \$1.6 million of certain uncollectible amounts receivable from, and liabilities applicable to, clients who have 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

deferred implementation costs is included as a cost of service fee revenue. To the extent implementation costs exceed the fees received, excess costs are recognized as incurred with the remaining deferred revenues and costs being amortized over the life of the contract. At March 31, 2001, the Company had \$2.3 million of deferred revenues included in current liabilities.

Certain contracts involve third-party vendors who provide services such as package delivery. The costs incurred by the Company related to such third-party services are reimbursed at cost by its clients and are not reflected in revenue or expense.

Concentration of Business and Credit Risk

All of the Company's product revenue for fiscal 1999 and 2000 was generated by sales of product purchased under master distributor agreements with one supplier. Product and service fee revenue to Daisytek accounted for approximately 13%, 22% and 55% of the Company's total revenues for fiscal 1999, 2000 and 2001, respectively. No other client accounted for 10% or more of the Company's revenue during such periods. As of March 31, 2000, four customers accounted for over 75% of trade accounts receivable on an aggregate basis. As of March 31, 2001, Daisytek and one other customer accounted for approximately 55% of accounts receivable.

Reclassifications

Certain prior year data have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net income, shareholders' equity or net cash flows.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable include outstanding trade accounts receivable as well as certain unbilled amounts owed to PFSweb by clients in accordance with contracts. The amount of unbilled receivables at March 31, 2000 and 2001 was approximately \$0.2 million and zero, respectively.

Other Receivables and Liabilities

During fiscal 1999, the Company entered into a contractual agreement whereby the Company financed certain inventory owned by a client of the Company. As of March 31, 2000, other receivables included approximately \$3.4 million related to this receivable. During fiscal 2001, this client repaid the outstanding balance. Under terms of the agreement, the Company charged the client an asset management fee, a portion of which resulted in interest income. Although the Company no longer finances this client's inventory, the Company continues to earn service fees related to services provided to this client.

As of March 31, 2001, other receivables includes the following items applicable to the Company's European operations (in thousands):

	MARCH 31, 2001 -----
Note.....	\$1,132
Value added tax.....	2,276
Governmental grant.....	1,564

	\$4,972
	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The note receivable amount represents the remaining balance of a \$1.7 million contract termination fee. As amended, the principal balance, bearing interest at prime rate plus two percent is due in periodic payments through June 29, 2001. Value Added Tax ("VAT") receivables represent amounts due from European governments for refundable VAT payments made in the ordinary course of business. The governmental grant relates to investments made by the Company in fixed assets in its Belgium operation. The Company received approximately \$1.3 million associated with this grant in April 2001 and expects the remaining balance to be paid within the next twelve months.

At establishment, the total grant of approximately \$1.6 million was deferred and is being recognized as a reduction to depreciation expense over the same period over which the costs of the related fixed assets are being depreciated. A deferred credit included in other liabilities in the accompanying consolidated financial statements represents the long-term unrecognized portion of the grant. For fiscal 2001, approximately \$0.2 million was recognized as a reduction of depreciation expense. The current unrecognized portion of the grant is included in accrued expenses. The grant was earned by the Company upon the achievement of certain minimum capital expenditure requirements. Realization of the entire gain requires the Company to maintain a certain minimum workforce through December 2004. The Company's management believes that the likelihood of a refund of this grant is remote.

Inventories

During the quarter ended September 30, 1999, the Company transferred to Daisytek all of its inventory (see Notes 1 and 5) and as of March 31, 2000 and 2001, the Company did not own any inventory.

Property and Equipment

The components of property and equipment as of March 31, 2000 and 2001 are as follows (in thousands):

	FISCAL YEAR ENDED		DEPRECIABLE LIFE
	MARCH 31,		
	2000	2001	
Furniture and fixtures.....	\$11,933	\$13,882	5-9 years
Computer equipment.....	3,725	4,714	3-7 years
Leasehold improvements.....	3,472	3,554	2-9 years
Capitalized software costs.....	4,772	6,201	2-3 years
Other.....	356	251	3-7 years
	24,258	28,602	
Less-accumulated depreciation and amortization.....	(2,703)	(8,349)	
Property and equipment, net.....	\$21,555	\$20,253	

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets which range from three to nine years. Leasehold improvements are amortized over the shorter of the useful life of the related asset or the remaining lease term.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value would be determined using appraisals, discounted cash flow analysis or similar valuation techniques. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Foreign Currency Translation and Transactions

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

For the Company's European operations, the U.S. dollar was the functional currency. Monetary assets and liabilities are translated at the rates of exchange on the balance sheet date and certain assets (notably property and equipment) are translated at historical rates. Income and expense items are translated at average rates of exchange for the period except for those items of expense, which relate to assets, which are translated at historical rates. The gains and losses from translation related to this subsidiary are included in net income.

Gains and losses from foreign currency transactions are included in net income.

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.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Fair Value of Financial Instruments

The carrying value of our financial instruments, which include cash and cash equivalents, accounts receivable, note receivable, accounts payable and a capital lease obligation, approximate their fair values based on short terms to maturity or current market prices and rates.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income (loss) consists of net income (loss) and foreign currency translation adjustments.

Net Income (Loss) Per Common Share

Prior to the Offering, which was consummated in fiscal 2000, basic and diluted net income (loss) per share attributable to PFSweb was determined based on net income (loss) divided by the 14,305,000 shares of PFSweb, Inc. (see Note 1) outstanding. There were no potentially dilutive securities outstanding during the periods presented prior to the Offering. For fiscal 2000 and 2001 outstanding options to purchase common shares of PFSweb were anti-dilutive and have been excluded from the weighted average share computation. There are no other potentially dilutive securities outstanding.

Cash Paid During Year

The Company made payments for interest of approximately \$16,000, \$3,514,000 and \$194,000 and income taxes of approximately \$269,000, \$6,000 and \$164,000 during fiscal 1999, 2000 and 2001, respectively

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(see Notes 5 and 6). The Company's income tax receivable and intercompany accrued interest are included in the payable to Daisytek as of March 31, 2000.

3. CAPITAL LEASE OBLIGATIONS:

During fiscal 2000, the Company entered into certain non-cancelable capital lease agreements primarily involving warehouse equipment. The Company's property held under capital leases, included in furniture and fixtures, amounted to approximately \$2.7 million and \$2.3 million, net of accumulated amortization of approximately \$23,000 and \$396,000 at March 31, 2000 and 2001, respectively.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of March 31, 2001 (in thousands):

Fiscal year ended March 31, 2002.....	\$ 506
2003.....	506
2004.....	493
2005.....	425
2006.....	425
Thereafter.....	920

Total minimum lease payments.....	\$3,275
Less: Amount representing interest.....	(836)

Present value of net minimum lease payments.....	2,439
Less: Current portion.....	(300)

Long-term capital lease obligations.....	\$2,139
	=====

4. STOCK AND STOCK OPTIONS:

Preferred Stock Purchase Rights

On June 8, 2000 the Company's Board of Directors declared a dividend distribution of one preferred stock purchase right (a "Right") for each share of the Company's common stock outstanding on July 6, 2000. Each Right entitles the registered shareholders to purchase from the Company one one-thousandth of a share of preferred stock at an exercise price of \$67, subject to adjustment. The Rights are not currently exercisable, but would become exercisable if certain events occurred relating to a person or group acquiring or attempting to acquire 15 percent or more of the Company's outstanding shares of common stock. The Rights expire on July 6, 2010, unless redeemed or exchanged by the Company earlier.

Employee Stock Purchase Plan

On September 15, 2000, PFSweb shareholders adopted the PFSweb Employee Stock Purchase Plan (the "Stock Purchase Plan") which is qualified under Section 423 of the Internal Revenue Code of 1986, to provide employees of PFSweb an opportunity to acquire a proprietary interest in the Company. The Stock Purchase Plan provides for acquisition of PFSweb common stock at a 15% discount to the market value. The Stock Purchase Plan permits each U.S. employee who has completed ninety days of service to elect to participate in the plan. Eligible employees may elect to contribute up to 10 percent of their compensation with after-tax dollars up to a maximum annual contribution of \$21,250. The Company has reserved 250,000 shares of its common stock under the Stock Purchase Plan. The Stock Purchase Plan became effective for eligible employees in September 2000. As of March 31, 2001, 37,378 shares had been issued under the Stock Purchase Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Stock Option Plans

PFSweb has authorized 6,000,000 shares of common stock for issuance under two 1999 stock option plans and 35,000 shares for issuance under a stock option agreement (the "PFSweb Plans"). The PFSweb Plans provide for the granting of incentive awards in the form of stock options to directors, executive management, key employees, and outside consultants of PFSweb. The right to purchase shares under the stock option agreements typically vest over a three-year period. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued at fair market value. The Company recorded stock based compensation expense of \$48,000 and \$38,000 in fiscal 2000 and 2001, respectively, in connection with stock options to purchase an aggregate of 60,000 shares issued under the PFSweb Plans to an outside consultant. At March 31, 2001 there is no unamortized stock based compensation expense. As of March 31, 2001 there were 3,675,650 shares available for future options.

The following table summarizes stock option activity under the PFSweb Plans:

	SHARES	PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
Outstanding, March 31, 1999.....	--	\$ --	\$ --
Granted.....	1,425,000	\$10.45 - \$17.00	\$10.69
Exercised.....	--	\$ --	\$ --
Canceled.....	(63,500)	\$10.45 - \$13.00	\$10.77

Outstanding, March 31, 2000.....	1,361,500	\$10.45 - \$17.00	\$10.69
Granted.....	1,238,700	\$ 1.16 - \$11.75	\$ 2.01
Exercised.....	--	\$ --	\$ --
Canceled.....	(240,850)	\$ 1.44 - \$17.00	\$ 6.73

Outstanding, March 31, 2001.....	2,359,350	\$ 1.16 - \$17.00	\$ 6.54
	=====		

PFSweb Plan options granted prior to the Spin-off vest one-third on the anniversary of the date of grant and one-twelfth each quarter thereafter. PFSweb Plan options granted after the Spin-off vest one-twelfth each quarter. As of March 31, 2000 and 2001, zero and 963,520 options were exercisable. The weighted average fair value of options granted during fiscal 2000 and 2001 were \$5.50 and \$1.67, respectively. The weighted average remaining contractual life of outstanding options is 8.8 years.

The following table summarizes information concerning currently outstanding and exercisable PFSweb stock options issued under the PFSweb Plans to PFSweb officers, directors and employees as of March 31, 2001:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	OUTSTANDING AS OF MARCH 31, 2001	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AS OF MARCH 31, 2001	WEIGHTED AVERAGE EXERCISE PRICE
-----	-----	-----	-----	-----	-----
\$ 1.16 - \$ 2.69	1,118,100	9.4	\$ 1.94	260,481	\$ 1.95
\$10.45 - \$17.00	1,241,250	8.3	\$10.69	703,039	\$10.63

Prior to the Offering and Spin-off transaction described in Note 1, certain of the Company's employees were granted Daisytek stock options under Daisytek's stock option compensation plans (the "Daisytek Plans"). The stock options generally vest over a three to five-year period from the date of grant and expire 10 years after the date of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In connection with the completion of the Spin-off, all outstanding Daisytek stock options were replaced with substitute stock options as described below:

Options held by PFSweb employees were replaced (at the option holder's election made prior to the Spin-off) with either options to acquire shares of PFSweb common stock or options to acquire shares of both Daisytek common stock and PFSweb common stock (which may be exercised separately) (the "Unstapled Options"). Options held by Daisytek employees were replaced (at the option holder's election made prior to the Spin-off) with either options to acquire shares of Daisytek common stock or Unstapled Options.

In general, the adjustments to the outstanding Daisytek options were established pursuant to a formula designed to ensure that: (1) the aggregate "intrinsic value" (i.e. the difference between the exercise price of the option and the market price of the common stock underlying the option) of the substitute options did not exceed the aggregate intrinsic value of the outstanding Daisytek stock options which were replaced by such substitute options immediately prior to the Spin-off, and (2) the ratio of the exercise price of the options to the market value of the underlying stock immediately before and after the Spin-off was preserved.

Substantially all of the other terms and conditions of each substitute stock option, including the time or times when, and the manner in which, each option is exercisable, the duration of the exercise period, the permitted method of exercise, settlement and payment, the rules that will apply in the event of the termination of employment of the employee, the events, if any, that may give rise to an employee's right to accelerate the vesting or the time or exercise thereof and the vesting provisions, are the same as those of the replaced Daisytek stock option, except that option holders who are employed by one company will be permitted to exercise, and will be subject to all of the terms and provisions of, options to acquire shares in the other company as if such holder was an employee of such other company.

As a result of the Spin-off on July 6, 2000, 3,479,697 non-plan PFSweb stock options (the "PFSweb Non-plan") were issued to PFSweb and Daisytek officers, directors and employees. As of March 31, 2001, 3,396,845 PFSweb Non-plan options were outstanding, of which 2,693,641 were held by PFSweb officers, directors and employees and 703,204 were held by Daisytek officers, directors and employees.

The following table summarizes stock option activity under the PFSweb Non-plan:

	SHARES	PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
Outstanding, March 31, 2000.....	--	\$ --	\$ --
Granted.....	3,479,697	\$4.22 - \$10.58	\$7.26
Exercised.....	--	\$ --	\$ --
Canceled.....	(82,852)	\$4.51 - \$10.58	\$7.91

Outstanding, March 31, 2001.....	3,396,845	\$4.22 - \$10.58	\$7.25
	=====		

The weighted average fair values of options granted during fiscal 2001, was \$5.95. As of March 31, 2001, 1,895,773 of options outstanding were exercisable. The weighted average exercise price of exercisable options outstanding at March 31, 2001 was \$7.12. The remaining options will become exercisable over the next two years based on vesting percentages. The weighted average remaining contractual life of outstanding PFSweb Non-Plan options is 7.4 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table summarizes information concerning PFSweb Non-plan options outstanding and exercisable as of March 31, 2001:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	OUTSTANDING AS OF MARCH 31, 2001	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AS OF MARCH 31, 2001	WEIGHTED AVERAGE EXERCISE PRICE
\$4.22 - \$ 5.95	2,334,755	7.4	\$ 5.85	1,366,794	\$ 5.87
\$6.18 - \$10.37	96,180	7.8	\$ 7.71	46,024	\$ 8.11
\$10.58	965,910	7.2	\$10.58	482,955	\$10.58

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of SFAS 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for the PFSweb Plans and Non-plan and the Daisytek Plans and accordingly, does not recognize compensation expense for its stock option plans because the Company and Daisytek typically do not issue options at exercise prices below the market value at the date of grant. Had compensation expense for the PFSweb Plans and Non-plan and the Daisytek Plans applicable to the Company's employees been determined based upon the fair value at the grant date for awards consistent with the methodology prescribed by SFAS 123, the Company's consolidated pretax income would have decreased by approximately \$2,531,000 and \$5,352,000 and \$3,766,000 in fiscal 1999, 2000, and 2001, respectively, and would have resulted in a net loss per share of (\$0.16), (\$0.73) and (\$0.81) in fiscal 1999, 2000, and 2001, respectively. These pro forma effects may not be representative of expense in future periods since the estimated fair value of stock options on the date of grant is amortized to expense over the vesting period. Additional options may be granted in future years. Options issued under the Daisytek Plans prior to April 1, 1995, were excluded from the computation.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants of PFSweb options to PFSweb officers, directors, and employees under the PFSweb Plans:

	FISCAL YEARS ENDED MARCH 31,	
	2000	2001
Expected dividend yield.....	--	--
Expected stock price volatility.....	45.00% - 84.23%	98.37% - 128.38%
Risk - free interest rate.....	5.5% - 6.2%	5.8% - 6.3%
Expected life of options (years).....	6	5

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants of PFSweb options to PFSweb and Daisytek officers, directors, and employees under the PFSweb Non-Plans during fiscal 2001: no dividends; expected volatility of 112.08%, risk-free interest rate of 6.1%, and expected life of 5 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants of Daisytek options to PFSweb officers, directors and employees under the Daisytek Plans during fiscal 1999: no dividends; expected volatility ranging between 41.42% and 47.92%; risk-free interest rate ranging between 4.6% and 5.5%; and expected life of 6 years. The following assumptions were used for grants of Daisytek options to PFSweb employees under the Daisytek Plans during fiscal 2000: no dividends; expected volatility between 49.37% and 50.02%; risk-free interest rate ranging between 5.7% and 6.0%; and expected life of 6 years. No options were granted to PFSweb officers, directors or employees under the Daisytek Plans during fiscal 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. TRANSACTIONS WITH DAISYTEK AND OTHER RELATED PARTIES:

Prior to the Offering, monies advanced by Daisytek were used to fund the Company's operations, working capital requirements and certain investment activities. Interest expense charged by Daisytek was based on its weighted average interest rates of 6.7% for fiscal 1999 and 2000 and approximated \$1.0 million and \$1.7 million, respectively.

During fiscal 2000, PFSweb used a portion of the proceeds from the Offering to repay its payable to Daisytek. Following the completion of the Offering, Daisytek is prohibited from advancing funds to PFSweb, except in the normal course of business, and PFSweb will be restricted from borrowing from Daisytek following the Spin-off. As of March 31, 2000, the payable to Daisytek reflected payables incurred in the normal course of business.

As of March 31, 2001, the Company had payables to Daisytek of approximately \$7.2 million and receivables from Daisytek of \$3.1 million.

The Company's product revenue from sales to Daisytek was \$12.4 million, \$7.2 million and zero in fiscal 1999, 2000 and 2001, respectively.

The Company's costs and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. The methods used for allocation of expenses from Daisytek were either (i) percentage of: revenue, shipped orders, or number of employees, or (ii) management's best estimate. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis. Management estimates that incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs would have been approximately \$2.0 million for fiscal 1999 and 2000, and \$0.2 million for fiscal 2001.

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

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

Included in the consolidated financial statements are service fee revenues and cost of service fee revenues which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements.

Service fee revenues charged to Daisytek under (i) the new IBM contracts, entered into during the quarter ended September 30, 1999, (ii) terms of the transaction management services agreement with Daisytek and (iii) for certain subcontracted services, were \$12.1 million and \$27.6 million for fiscal 2000 and 2001, respectively. Service fee revenues applicable to the subcontracted service were \$0.8 million in fiscal 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In May 1999, the Company entered into an agreement to provide services to a certain company. During fiscal 2000, an executive officer and a director of PFSweb both served on the Board of Directors of this company. During fiscal 2001 an executive officer of PFSweb served on the Board of Directors of this company. PFSweb no longer provides services to this company. Service fee revenue earned from this company was approximately \$1.8 million and \$2.0 million for fiscal 2000 and 2001, respectively, and other revenue was \$1.7 million for fiscal 2001.

PFS had previously guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). In December 1999, PFS was released from its guarantee.

A non-employee director of PFSweb was a Managing Director of Hambrecht and Quist LLP, one of the lead managing underwriters on the Offering.

6. INCOME TAXES:

Prior to the Spin-off, the Company's operations were included in consolidated income tax returns filed by Daisytek. The provision for income taxes reflected in the consolidated statements of operations and the deferred tax assets reflected in the consolidated balance sheets have been prepared as computed on a separate return basis. The current income tax liability or receivable for fiscal 1999 and 2000 have been included in the payable to Daisytek. Effective with the completion of the Spin-off, PFSweb ceased to be included in Daisytek's consolidated tax return.

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

	FISCAL YEARS ENDED MARCH 31,		
	1999	2000	2001
Income tax expense (benefit) computed at statutory rate....	\$172	\$(2,628)	\$(3,649)
Impact of foreign taxation at different rate.....	16	(24)	(28)
State income taxes, net of federal tax impact.....	21	51	--
Expenses not deductible for tax purposes.....	11	84	9
Net operating loss carryback.....	--	(171)	--
Change in valuation reserve.....	--	915	3,382
Other.....	(6)	(18)	311
Provision (benefit) for income taxes.....	\$214	\$(1,791)	\$ 25
	====	=====	=====

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

	FISCAL YEARS ENDED MARCH 31,		
	1999	2000	2001
Domestic.....	\$(45)	\$(5,331)	\$(6,188)
Foreign.....	551	(2,399)	(4,543)
Total.....	\$506	\$(7,730)	\$(10,731)
	====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Current and deferred income tax expense (benefit) is summarized as follows (in thousands):

	FISCAL YEARS ENDED		
	MARCH 31,		
	1999	2000	2001
Current			
Domestic.....	\$ 268	\$(2,150)	\$ 57
State.....	33	77	--
Foreign.....	105	(171)	77
Total current.....	406	(2,244)	134
Deferred			
Domestic.....	(175)	453	(109)
State.....	(17)	--	--
Total deferred.....	(192)	453	(109)
Total.....	\$ 214	\$(1,791)	\$ 25

The components of the deferred tax asset (liability) are as follows (in thousands):

	MARCH 31,	
	2000	2001
Deferred tax asset:		
Allowance for doubtful accounts.....	\$ 241	\$ 95
Net operating loss carryforwards.....	670	4,454
Other.....	120	30
	1,031	4,579
Less -- Valuation reserve.....	915	4,297
Total deferred tax asset.....	116	282
Deferred tax liability:		
Property and equipment.....	(116)	(470)
Total deferred liability.....	(116)	(470)
Deferred tax liability, net.....	\$ --	\$ (188)

Management believes a sufficient history of earnings has not been established by PFSweb, on a stand-alone basis to support the more likely than not realization of deferred tax assets in excess of existing taxable temporary differences. A valuation allowance has been provided for the net deferred income tax asset as of March 31, 2000 and 2001. At March 31, 2001, net operating loss carryforwards relate to taxable losses of the Company's Europe subsidiary totaling approximately \$6.6 million and the Company's U.S. subsidiary, totaling approximately \$6.5 million that expire in 2016.

7. COMMITMENTS AND CONTINGENCIES:

The Company leases facilities, warehouse, office, transportation and other equipment under operating leases expiring in various years through fiscal 2009. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced by other leases. Minimum future annual rental payments

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

under non-cancelable operating leases having original terms in excess of one year are as follows (in thousands):

Fiscal year ended March 31,	
2002.....	\$ 7,354
2003.....	6,287
2004.....	6,093
2005.....	2,297
2006.....	1,618
Thereafter.....	3,647

Total.....	\$27,296
	=====

After giving effect to the lease assumption by Daisytek discussed in Note 11, fiscal 2002 lease commitments and total lease commitments (and leases guaranteed by Daisytek) decreased by approximately \$1.4 million and \$5.0 million, respectively.

The Company has entered into an asset purchase agreement to purchase certain assets totaling approximately \$8.8 million in 2001. The purchase agreement allows the Company to forfeit a portion or all of certain prepayments and deposits, which as of March 31, 2001 totaled \$1 million, in lieu of liquidated damages if the Company elects not to exercise its purchase rights.

Total rental expense under operating leases approximated \$0.8 million, \$3.7 million and \$7.7 million for fiscal 1999, 2000 and 2001, respectively.

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

Subsequent to March 31, 2001, the Company exercised its option to renew a lease for an additional five year term beginning in March 2002. Annual payments under this lease, subject to adjustment, approximate \$0.9 million.

8. SEGMENT AND GEOGRAPHIC INFORMATION:

The Company is organized as a single operating segment which is an international provider of integrated business process outsourcing solutions. Geographic areas in which the Company operates include the United States, Europe (primarily Belgium), and Canada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following is geographic information by area. Transfers between geographic areas were immaterial. Revenues are attributed based on the Company's domicile.

	YEAR ENDED OR AT MARCH 31,		
	1999	2000	2001
Revenues:			
United States.....	\$ 85,746	\$64,455	\$43,352
Europe.....	10,456	18,357	5,863
Canada.....	5,047	3,795	1,140
	-----	-----	-----
	\$101,249	\$86,607	\$50,355
	=====	=====	=====
Long-lived assets:			
United States.....	\$ 14,449	\$14,465	\$13,775
Europe.....	373	7,358	6,448
Canada.....	152	260	134
	-----	-----	-----
	\$ 14,974	\$22,083	\$20,357
	=====	=====	=====

9. EMPLOYEE SAVINGS PLAN

The Company has a defined contribution employee savings plan under Section 401(k) of the Internal Revenue Code. Substantially all full-time and part-time U.S. employees are eligible to participate in the plan. The Company, at its discretion, may match employee contributions to the plan and also make an additional matching contribution in the form of profit sharing in recognition of the Company performance. During fiscal year 2001, the Company matched 10% of employee contributions totaling approximately \$41,000.

10. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED):

Unaudited quarterly results of operations for fiscal 2000 and 2001 were as follows (amounts in thousands except per share data):

	FISCAL 2000			
	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
Total revenue.....	\$35,811	\$26,971	\$10,868	\$12,957
Gross profit.....	2,787	2,458	1,096	4,152
Net loss.....	(198)	(575)	(4,777)	(389)
Basic and diluted loss per share.....	(0.01)	(0.04)	(0.31)	(0.02)
Shares used in computation of basic and diluted loss per share:.....	14,305	14,350	15,447	17,870

	FISCAL 2001 AS REPORTED			
	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
Total revenue.....	\$13,370	\$12,563	\$12,884	\$11,638
Total cost of revenues.....	8,645	10,169	8,567	7,650
Gross profit.....	4,725	2,394	4,317	3,988
Selling, general and administrative expenses...	5,230	9,158	6,456	6,402
Loss from operations.....	(505)	(6,764)	(2,139)	(2,414)
Net loss.....	(238)	(6,465)	(1,861)	(2,192)
Basic and diluted loss per share.....	(0.01)	(0.36)	(0.10)	(0.12)
Shares used in computation of basic and diluted loss per share:.....	17,870	17,870	17,870	17,907

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	FISCAL 2001 AS RESTATED			
	1ST QTR.	2ND QTR.	3RD QTR.	4TH QTR.
Total revenue(1).....	\$13,370	\$12,963	\$12,384	\$11,638
Total cost of revenues(1).....	8,645	11,869	8,567	7,650
Gross profit(1).....	4,725	1,094	3,817	3,988
Selling, general and administrative expenses(1).....	5,230	7,858	5,956	6,402
Loss from operations.....	(505)	(6,764)	(2,139)	(2,414)
Net loss.....	(238)	(6,465)	(1,861)	(2,192)
Basic and diluted loss per share.....	(0.01)	(0.36)	(0.10)	(0.12)
Shares used in computation of basic and diluted loss per share:.....	17,870	17,870	17,870	17,907

(1) Represents an increase in revenue in the second quarter of \$1.7 million for contract termination fees previously recorded as a reduction of cost of service fee revenue and a \$1.3 million and \$0.5 million reduction of previously recorded service fee revenues and selling, general and administrative expenses in the second quarter and the third quarter, respectively.

The seasonality of the Company's business is dependent upon the seasonality of its clients' business and their sale of products. Management believes that with the Company's current client mix, the Company's business activity is expected to be slightly more significant in the quarter ended December 31.

11. SUBSEQUENT EVENTS:

Subsequent to March 31, 2001, the Company elected to change its fiscal year end date from March 31 to December 31.

On April 30, 2001, the Company filed a Tender Offer Statement on Schedule TO (the "Schedule TO") relating to the Company's offer to exchange certain options to purchase shares of its common stock held by certain PFSweb officers, directors and employees for new options to purchase shares of its common stock at a per share price equal to the fair market value of one share of its common stock on the date of issuance, currently expected to be December 3, 2001, upon the terms and subject to the conditions in the Offer to Exchange (the "Offer") dated April 30, 2001. On May 29, 2001 the Offer expired and the Company accepted for exchange options to purchase 3,753,044 shares of common stock, 2,663,544 of which were PFSweb Non-plan options and 1,089,500 were PFSweb Plan options. On May 29, 2001, the Company also repriced and fully vested 105,000 options issued under the PFSweb Plans and 698,860 PFSweb Non-plan options held by Daisytek officers, directors and employees and non-employees which resulted in a non-cash charge of approximately \$0.7 million.

On May 25, 2001, the Company completed the sale of certain assets to Daisytek pursuant to an Asset Purchase Agreement (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 (\$10 million of which was paid at closing on May 25, 2001 and \$1 million of which is payable over six months, subject to certain potential offsets) included a release by the Company and Daisytek of certain transaction management services agreements previously entered into between the Company and Daisytek and a Daisytek subsidiary. Proceeds of \$10 million (excluding the \$1 million deferred proceeds), were received for assets with an approximately \$4.5 million net book value with a resulting \$5.0 million gain, after closing costs of \$0.5 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 will provide Daisytek with certain

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

transitional and information technology services for which the Company will receive monthly service fees, subject to satisfaction of certain performance criteria.

Pro forma revenues and pro forma loss from operations for fiscal 2001, assuming the transaction had occurred in April, 2000, would have been \$29.5 million and (\$18.9) million, respectively. 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. These pro forma results do not give effect to any fees to be earned by PFSweb for services to be provided by Daisytek under a six-month transition services agreement.

The Company, Daisytek and IBM are parties to various Master Distributor Agreements which have various scheduled expirations dates through September 2001 and are otherwise generally terminable at will. On June 8, 2001, Daisytek notified the Company and IBM that it does not intend to renew these agreements upon their scheduled expiration dates. Services provided under these agreements by the Company represented approximately 13.5% of the Company's total revenues in fiscal 2001. The Company is currently discussing with IBM the continuation of these arrangements and has received a letter of intent from IBM to extend such agreements with PFS for two years subject to obtaining satisfactory financing. There can be no assurance that these discussions will be successful or that the Company's arrangements with IBM will continue or, if they continue, any of the terms thereof. It is possible that new arrangements with IBM may involve cash commitments by the Company, new third party financing, a joint venture with a new master distributor or direct ownership by the Company of the IBM products. The Company believes that through one of these financing arrangements, it will be able to continue to earn revenues in the future associated with selling or providing services related to IBM product.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On February 26, 2001, PFSweb, Inc. and Arthur Andersen LLP terminated their client-auditor relationship. The reports of Arthur Andersen LLP on the consolidated financial statements for the past two years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The Audit Committee of the Board of Directors of the Company approved the decision to change independent accountants. In connection with its audits for the two most recent fiscal years and through February 26, 2001, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, consolidated financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused them to make reference thereto in their report on the consolidated financial statements for such years. During the two most recent fiscal years and through February 26, 2001, there were no reportable events (as defined in Regulation S-K Item 304(a)(1)(v)). The Company requested that Arthur Andersen LLP furnish it with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the above statements. A copy of such letter, dated March 2, 2001, was received. The Company appointed KPMG LLP as its new independent accountants as of February 26, 2001.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Reference is made to the information to be set forth in the section entitled "Election of Directors" in the definitive proxy statement involving the election of directors in connection with the Annual Meeting of Stockholders of the Company to be held in September 2001 (the "Proxy Statement") which section is incorporated herein by reference. The Proxy Statement (or an amendment to this Form 10-K containing the relevant information) will be filed with the Securities and Exchange Commission not later than 120 days after the last day of the Company's fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Information required by Part III, Item 11, will be included in the section entitled "Election of Directors" of the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held in 2000, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by Part III, Item 12, will be included in the Sections entitled "Election of Directors" and "Security Ownership of Certain Beneficial Owners and Management" of the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held in September 2001, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

Information regarding certain of the Company's relationships and related transactions will be included in the section entitled "Certain Relationship and Related Transactions" of the Company's Proxy Statement relating to the Company's annual meeting of stockholders to be held in September 2001, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

1. Financial Statements

Independent Auditors' Report

Report of Independent Public Accountants

Consolidated Balance Sheets as of March 31, 2000 and 2001

Consolidated Statements of Operations for the Fiscal Years Ended March 31, 1999, 2000 and 2001

Consolidated Statements of Shareholders' Equity for the Fiscal Years Ended March 31, 1999, 2000 and 2001

Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 1999, 2000 and 2001

Notes to Consolidated Financial Statements

2. Financial Statements Schedules

Report of Independent Public Accountants

Schedule II -- Valuation and Qualifying Accounts

All other schedules are omitted because the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements or notes thereto.

3. Exhibits

EXHIBIT NO. -----	DESCRIPTION OF EXHIBITS -----
2.1*	-- Master Separation Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.2*	-- Initial Public Offering and Distribution Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, and PFSweb, Inc.
2.3*	-- Registration Rights Agreement by and among Daisytek International Corporation, Daisytek, Incorporated and PFSweb, Inc.
2.4*	-- Tax Indemnification and Allocation Agreement between Daisytek, International Corporation and PFSweb, Inc.
2.5*	-- Transition Services Agreement between Daisytek Incorporated and PFSweb, Inc.
2.6*	-- Transaction Management Services Agreement between Daisytek, Incorporated and Priority Fulfillment Services, Inc.
3.1*	-- Amended and Restated Certificate of Incorporation
3.2*	-- Amended and Restated Bylaws
10.1*	-- Non-Employee Director Stock Option and Retainer Plan
10.2*	-- Employee Stock Option Plan
10.3*	-- Employee Annual Incentive Plan
10.4*	-- Industrial Lease Agreement between Shelby Drive Corporation and Priority Fulfillment Services, Inc.
10.5*	-- Lease Contract between Transports Weerts and Priority Fulfillment Services Europe B.V.

EXHIBIT NO. -----	DESCRIPTION OF EXHIBITS -----
10.6**	-- Asset Purchase Agreement by and among PFSweb, Inc., Priority Fulfillment Services, Inc., Daisytek, Inc. and Daisytek International Corporation
10.7**	-- Transition Services Agreement by and between PFSweb, Inc. and Daisytek International Corporation
10.8**	-- Form of Change of Control Agreement between the Company and each of its executive officers
21**	-- Subsidiaries of the Registrant
23.1**	-- Consent of KPMG LLP
23.2**	-- Consent of Arthur Andersen LLP

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

** Filed herewith.

(b) Reports on Form 8-K:

Form 8-K filed on March 2, 2001 reporting Item 4, Changes in Registrant's Certifying Accountant, that on February 26, 2001, PFSweb, Inc. and Arthur Andersen LLP terminated their client-auditor relationship. The reports of Arthur Andersen LLP on the consolidated financial statements for the past two years contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. The Audit Committee of the Board of Directors of the Company approved the decision to change independent accountants. In connection with its audits for the two most recent fiscal years and through February 26, 2001, there have been no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, consolidated financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused them to make reference thereto in their report on the consolidated financial statements for such years. During the two most recent fiscal years and through February 26, 2001, there have been no reportable events (as defined in Regulation S-K Item 304(a)(1)(v)).

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Shareholders of PFSweb, Inc.:

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of PFSweb, Inc. (a Delaware corporation) and subsidiaries (see Note 1) as of March 31, 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2000 included in this report on Form 10-K and have issued our report thereon dated May 4, 2000. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II of this report on Form 10-K is the responsibility of the company's management and is presented for the purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements as of March 31, 2000 and for the two years then ended taken as a whole.

ARTHUR ANDERSEN LLP

Dallas, Texas
May 4, 2000

SCHEDULE II

PFSWEB, INC. AND SUBSIDIARIES

 VALUATION AND QUALIFYING ACCOUNTS
 FOR THE THREE YEARS ENDED MARCH 31, 2001
 (AMOUNTS IN THOUSANDS)

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS	BALANCE AT END OF PERIOD
		CHARGES TO COST AND EXPENSES	CHARGES TO OTHER ACCOUNTS		
Fiscal Year Ended March 31, 1999:					
Allowance for doubtful accounts.....	\$318	344	--	(27)	\$ 635
Fiscal Year Ended March 31, 2000:					
Allowance for doubtful accounts.....	\$635	458	--	(403)	\$ 690
Income tax valuation allowance.....	\$ --	915	--	--	\$ 915
Fiscal Year Ended March 31, 2001:					
Allowance for doubtful accounts.....	\$690	2,203	--	(2,614)	\$ 279
Income tax valuation allowance.....	\$915	3,382	--	--	\$4,297

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ THOMAS J. MADDEN

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

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ MARK C. LAYTON ----- Mark C. Layton	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	June 29, 2001
/s/ THOMAS J. MADDEN ----- Thomas J. Madden	Executive Vice President and Chief Financial and Accounting Officer (Principal Financial and Accounting Officer)	June 29, 2001
/s/ CHRISTOPHER YATES ----- Christopher Yates	Director	June 29, 2001
/s/ DR. NEIL JACOBS ----- Dr. Neil Jacobs	Director	June 29, 2001
/s/ TIMOTHY M. MURRAY ----- Timothy M. Murray	Director	June 29, 2001
/s/ JAMES F. REILLY ----- James F. Reilly	Director	June 29, 2001
/s/ DAVID I. BEATSON ----- David I. Beatson	Director	June 29, 2001

EXHIBIT INDEX

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

** Filed herewith.

ASSET PURCHASE AGREEMENT

Dated as of May 25, 2001

by and among

PFSWEB, INC.,

PRIORITY FULFILLMENT SERVICES, INC.

DAISYTEK, INC.

and

DAISYTEK INTERNATIONAL CORPORATION

SCHEDULE

2.1A	Assets
2.1B	Excluded Assets
2.2	Assumed Liabilities
2.4	Employees to Whom Seller May Offer Employment
2.4(c)	Wages of Transferring Employees and Assumed Employee Expenses
3.2	Cash Payment Adjustments
3.3	Allocation of Purchase Price
3.5	Proration of Taxes
3.6	Proration of Utilities
3.8	Required Consents
4.2	Authority - Non-contravention
4.3	Leased Real Property
4.4	Personal Property
4.6	Material Permits
4.9	Contract Defaults
4.13	Benefit Plans
4.14	Employees
4.15	Consents
4.16	Insurance
4.17	Contested Taxes
4.21	Guaranteed Agreements
5.3	Purchaser Consents Required
7.2	IBM Agreements
12	Ongoing Expenses
14.1	Expenses

EXHIBITS

A	Bill of Sale and Assignment
B	Assumption Agreement
C	Termination Agreement
D	Transition Agreement
E	Private Letter Ruling

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "Agreement") is made and entered into as of the 25th day of May, 2001, by and among Priority Fulfillment Services, Inc., a Delaware corporation with its principal offices at 500 North Central Expressway, Plano, Texas 75074 ("Seller"), PFSweb, Inc., a Delaware corporation with its principal offices at 500 North Central Expressway, Plano, Texas 75074 ("PFSweb"), Daisytek, Inc., a Delaware corporation with its principal offices at 1025 Central Expressway South, Suite 200, Allen, Texas 75013 ("Purchaser"), and Daisytek International Corporation, a Delaware corporation with its principal offices at 1025 Central Expressway South, Suite 200, Allen, Texas 75013 ("Parent").

WHEREAS, Seller desires to sell to Purchaser, and Purchaser desires to buy from Seller, all of the assets of Seller used in its business operations (other than the Excluded Assets) to provide comprehensive outsourcing solutions to Purchaser and B.A. Pargh Company (the "Business"); and

WHEREAS, Purchaser is a wholly-owned subsidiary of Parent and Parent will benefit from Purchaser's purchase of all of Seller's assets used in the Business (other than the Excluded Assets); and

WHEREAS, Seller is a wholly-owned subsidiary of PFSweb and PFSweb will benefit from Seller's sale of all of its assets used in the Business (other than the Excluded Assets); and

NOW, THEREFORE, for and in consideration of the mutual representations, warranties, covenants and agreements hereinafter set forth and other good and valuable consideration, and upon the terms and subject to the conditions hereinafter set forth, the parties do hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Action" means any claim, action, suit or arbitration in each case, by or before any Governing Authority.

"Additional Documents" means the Bill of Sale and Assignment, the Assumption Agreement, the Termination Agreement and the Transition Agreement.

"Affiliate" means, with respect to any specified Person, any other Person that directly, or indirectly through one or more intermediaries, Controls, is Controlled by, or is Under Common Control With, such specified Person.

"Assets" has the meaning specified in Section 2.1.

"Assumed Contracts" has the meaning specified in Section 4.8.

"Assumed Employee Expenses" has the meaning specified in Section 2.4(d).

"Assumed Liabilities" has the meaning specified in Section 2.2.

"Assumption Agreement" shall mean that certain Assignment and Assumption Agreement in the form of that attached hereto as Exhibit B to be executed by Purchaser, Seller and such third parties as Purchaser may request.

"Bill of Sale and Assignment" shall mean that certain Bill of Sale and Assignment in the form of that attached hereto as Exhibit A to be executed by Seller and such Affiliates of Seller as Purchaser may request.

"BSD" has the meaning specified in Section 7.2.

"BSD Business" has the meaning specified in Section 7.2.

"BSD Group" has the meaning specified in Section 7.2.

"Business" has the meaning set forth in the recitals of this Agreement.

"Business Day" means any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in The City of New York.

"Cash Payment" has the meaning specified in Section 3.2(a).

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and the rules and regulations promulgated thereunder.

"CERCLIS" means the Comprehensive Environmental Response, Compensation and Liability Information System.

"Claims" means any debts, contracts, leases, liabilities, arrangements, commitments, obligations, restrictions, disabilities or duties whatsoever, whether known or unknown, contingent or absolute, tort or contract.

"Closing" and "Closing Date" have the meanings specified in Section 8.1.

"Code" means the Internal Revenue Code of 1986, as amended.

"Control" (including the terms "Controlled By" and "Under Common Control With"), with respect to the relationship between or among two or more Persons, means the possession, directly or indirectly or as trustee, personal representative or executor, of the power to direct or cause the direction of the affairs or management of a

Person, whether through the ownership of voting securities, as trustee, personal representative or executor, by contract or otherwise, including, without limitation, the ownership, directly or indirectly, of securities having the power to elect a majority of the board of directors or similar body governing the affairs of such Person.

"Controlled Group" has the meaning specified in the Ruling.

"Deferred Payment" and "Deferred Payments" have the meanings specified in Section 3.2(b).

"Distributing Group" has the meaning specified in the Ruling.

"Employee Claims" has the meaning specified in Section 13.3.

"Encumbrance" means any security interest, pledge, mortgage, lien (including, without limitation, environmental and tax liens), charge, encumbrance, adverse claim, preferential arrangement, or restriction of any kind other than (a) mechanic's, materialman's, and similar liens for work completed but for which payment is not yet due; (b) liens for taxes not yet due and payable or for taxes that the taxpayer is contesting (and which contest has been disclosed on Schedule 4.17 with respect to Seller) in good faith through appropriate proceedings; or (c) with respect to leased Assets, the interest of the lessor, or any party claiming through the lessor, therein.

"Environmental Laws" means any federal, state or local law or any foreign law, including any statute, rule, regulation, ordinance, code or rule of common law, now or hereafter in effect and in each case as amended, including any judicial or administrative order, consent decree or judgment, relating to the environment, health, safety or Hazardous Materials, including, without limitation, CERCLA; CERCLIS; the Resource Conservation and Recovery Act, 42 U.S.C. Sections 6901 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. Sections 1801 et seq.; the Clean Water Act, 33 U.S.C. ss.ss. 1251 et seq.; the Toxic Substances Control Act, 15 U.S.C Sections 2601 et seq.; the Clean Air Act, 42 U.S.C Sections 7401 et seq.; the Safe Drinking Water Act, 42 U.S.C Sections 300f et seq.; the Atomic Energy Act, 42 U.S.C Sections 2011 et seq.; the Federal Insecticide, Fungicide and Rodenticide Act, 7 U.S.C Sections 136 et seq.; Emergency Planning and Community Right-to-Know Act, 42 U.S.C Sections 11001 et seq.; the Occupational Safety and Health Act, 29 U.S.C Sections 651 et seq.; and the Superfund Amendments and Reauthorization Act, 42 U.S.C Sections 9601 et seq.

"Environmental Permits" means all permits, written approvals, U.S. Environmental Protection Agency or state generator numbers, licenses and other authorizations from applicable Governing Authorities required under any applicable Environmental Law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Excluded Assets" has the meaning specified in Section 2.1.

"Excluded Claims" has the meaning specified in Section 2.2.

"GAAP" means United States generally accepted accounting principles and practices in effect from time to time applied consistently throughout the periods involved.

"Governmental Actions" means all authorizations, consents, approvals, waivers, exceptions, variances, franchises, permissions, permits and licenses of, and filings and declarations with, by or in respect of, Governing Authorities.

"Governing Authority" means any United States federal, state, local, possession or foreign governmental, regulatory or administrative authority, agency or commission, or any political subdivision thereof, or any court, tribunal or arbitral body (whether governmental or not).

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governing Authority.

"Guaranteed Agreements" has the meaning specified in Section 4.21.

"Guaranty Revocation Date" has the meaning specified in Section 4.21.

"Hazardous Materials" means (a) petroleum and petroleum fuels, lubricants and cleaning agents, radioactive materials, friable asbestos material as defined under 40 C.F.R. 61.141, urea formaldehyde foam insulation, transformers or other equipment that contain polychlorinated biphenyls in concentrations of 50 ppm, and radon gas; (b) any other pollutants, contaminants, wastes, chemicals, materials or substances defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "toxic substances", "contaminants", "pollutants" or "extremely hazardous wastes" or words of similar import, under any applicable Environmental Law or otherwise subject to regulation, control or remediation under Environmental Laws; and (c) any other pollutant, contaminant, waste, chemical, material or substance exposure to which is regulated pursuant to any applicable Environmental Law.

"IBM Agreements" has the meaning specified in Section 7.2.

"IBM Products" has the meaning specified in Section 7.2.

"Income Taxes" means any and all income taxes (together with any and all interest, penalties, and additional amounts imposed with respect thereto) imposed by any government or taxing authority.

"Indemnified Party" has the meaning specified in Section 13.5.

"Indemnification Notice" has the meaning specified in Section 13.5.

"Indemnifying Party" has the meaning specified in section 13.5.

"IRS" means the Internal Revenue Service.

"Knowledge" (including the terms "to the knowledge of" or "to the best knowledge of") means, with respect to Seller, the actual personal knowledge of Mark Layton, Scott Talley, Steve Graham, Cliff Defee, Tom Madden, Chris Yates at the time when the applicable statement is made.

"Laws" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision or of any Governing Authority.

"Leased Real Property" means the "Demised Premises" defined in that certain Industrial Lease Agreement dated March 31, 1999 between New York Life Insurance Company, as landlord, and Daisytek, Inc., as tenant, as assigned to Seller pursuant to that certain Assignment of Industrial Lease Agreement dated May 9, 2000

"Losses" has the meaning specified in Section 13.4.

"Material Adverse Effect" means any circumstance, change in, or effect on, the Business or the Assets that individually, or in the aggregate with any other circumstances, changes in, or effects on, the Business or the Assets, taken as a whole would materially adversely affect the ability of Purchaser to operate or conduct the Business in the manner in which it is currently operated or conducted by Seller or utilize the Assets in the manner in which they are currently utilized by Seller.

"Material Permits" has the meaning specified in Section 4.6.

"MMH Certificate" has the meaning set forth in Section 6.5.

"Objection Period" has the meaning specified in Section 13.9(a).

"Parent" has the meaning specified in the opening paragraph.

"Person" means any individual, partnership, firm, corporation, association, trust, unincorporated organization or other entity, as well as any syndicate or group that would be deemed to be a person under Section 13(d)(3) of the Exchange Act.

"PFS Group" has the meaning specified in Section 7.2.

"PFSweb" has the meaning specified in the opening paragraph.

"Plans" has the meaning specified in Section 4.13.

"Private Actions" means all authorizations, consents, approvals, waivers, exceptions, variances, franchises, permissions, permits and licenses of (a) Persons other than Governing Authorities and (b) Governing Authorities acting in private capacities.

"Purchase" has the meaning specified in the Ruling.

"Purchase Price" has the meaning specified in Section 3.1.

"Purchaser" has the meaning specified in the opening paragraph.

"Purchaser's Losses" has the meaning specified in Section 13.2.

"Recalculation Notice" has the meaning specified in Section 3.5.

"Remedial Action" means all action required under any applicable Environmental Law or Environmental Permit and all action required by a Governing Authority to (i) clean up, remove, treat or handle in any other way Hazardous Materials in the environment; (ii) prevent the release of Hazardous Materials so that they do not migrate, endanger or threaten to endanger public health or the environment; or (iii) perform remedial investigations, feasibility studies, corrective actions, closures, and postremedial or postclosure studies, investigations, operations, maintenance and monitoring on, about or in any real property, including, without limitation, Seller's Leased Real Property.

"Required Consents" means all orders, approvals, estoppel certificates or consents of the Seller's Board of Directors and any third parties, including, without limitation, any orders, approvals, certificates or consents deemed necessary by counsel to Purchaser which shall be required to consummate the transactions contemplated hereby, including, without limitation, consents to the assignment of the Assumed Liabilities listed on Schedule 2.2.

"Ruling" means that certain IRS Private Letter Ruling 120721-01, a copy of which is attached hereto as Exhibit E.

"SASA" has the meaning specified in Section 2.5.

"Seller" has the meaning specified in the opening paragraph.

"Seller Commercial Software Rights" means packaged commercially available software programs generally available to the public through retail dealers in computer software which have been licensed to Seller and which are used in Seller's business but are in no way a component of or incorporated in any of Seller's products and related trademarks, technology and know-how.

"Seller's Bank Account" means the account to be designated by the Seller in a written notice to Purchaser not less than five Business Days before the Closing.

"Seller's Losses" has the meaning specified in Section 13.4.

"Separation" has the meaning specified in the Ruling.

"Service Level Penalties" has the meaning specified in the Transition Agreement.

"Services" has the meaning specified in Section 7.2.

"Spin-off" means the transaction in which the Parent distributed its ownership interest in PFSweb to its stockholders.

"Supplemental Ruling Request" has the meaning specified in Section 4.11.

"Tax" or "Taxes" means any and all taxes, fees, levies, duties, tariffs, imposts, and other charges of any kind (together with any and all interest, penalties, additions to tax and additional amounts imposed with respect thereto) imposed by any government or taxing authority, including, without limitation: taxes or other charges on or with respect to income, franchises, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers' compensation, unemployment compensation, or net worth; taxes or other charges in the nature of excise, withholding, ad valorem, stamp, transfer, value added, or gains taxes; sales and use taxes charged by the U.S. federal government, any state, country or any other locality; license, registration and documentation fees; and customs' duties, tariffs, and similar charges.

"Tax Allocation Agreement" shall mean that certain Tax Indemnification and Allocation Agreement dated as of December 7, 1999 between the Parent and PFSweb.

"Termination Agreement" shall mean that certain Termination Agreement in the form of that attached hereto as Exhibit C to be executed by Purchaser, Parent, Seller and such Affiliates of Parent and Seller as the other may request.

"TMSA" has the meaning specified in Section 2.5.

"Transferring Employee" has the meaning specified in Section 2.4(a).

"Transition Agreement" shall mean that certain Transition Services Agreement in the form of that attached hereto as Exhibit D to be executed by Parent and PFSweb.

"Vendor Debt" has the meaning specified in Section 9.8.

"WARN Act" means the Worker Adjustment and Retraining Notification Act of 1988, as amended.

ARTICLE II
PURCHASE AND SALE

2.1 Purchase and Sale of Assets. Effective at the Closing, Seller will sell, convey, transfer, assign and deliver to Purchaser, and Purchaser will acquire and accept from Seller, the assets and properties listed on Schedule 2.1A (collectively, the "Assets"), free and clear of any and all Encumbrances provided, however, that "Assets" shall not include, and Seller will not sell, convey, transfer, assign or deliver to Purchaser, and Purchaser will not acquire from Seller, (i) the corporate charter, qualifications to conduct business as a foreign corporation, arrangements with registered agents relating to foreign qualifications, taxpayer and other identification numbers, seals, minute books, stock transfer books, blank stock certificates, and other documents relating to the organization, maintenance, and existence of the Seller as a corporation, (ii) any of the rights of the Seller under this Agreement, (iii) claims (and benefits to the extent they arise therefrom) that relate to Seller's liabilities other than the Assumed Liabilities, (iv) all of Seller's cash, bank accounts, certificates of deposit, securities and accounts receivable, (v) insurance policies of Seller and proceeds and the deposits related thereto to the extent such policies are not expressly assumed by Purchaser and Parent, and (vi) the items listed on Schedule 2.1B (collectively, the "Excluded Assets").

2.2 Assumption of Certain Obligations. Effective at the Closing and subject to the terms set forth herein, Purchaser shall assume and be liable solely for the liabilities and obligations of Seller listed on Schedule 2.2, including the Assumed Employee Expenses (collectively, the "Assumed Liabilities"). Purchaser will not assume and will not be liable for and Seller will be liable and will pay for any Claims: (i) of the Seller or of its Affiliates or (ii) which arise from or relate to the ownership, use, sale, manufacture, design, possession, operation or control of the Assets or operation of the Business prior to the Closing Date (collectively, "Excluded Claims"); other than the Assumed Liabilities and only in the amounts set forth on Schedule 2.2. Furthermore, Purchaser will not assume and Seller shall remain liable for all tax liabilities, including, but not limited to, personal property taxes and income taxes, incurred, imposed upon or accrued by the Seller through the Closing Date, as more fully described in Section 3.5.

2.3 Transfer and Conveyance. Seller shall execute and deliver to Purchaser at the Closing, a Bill of Sale and Assignment in substantially the form attached hereto as Exhibit A, the Assumption Agreement in substantially the form attached hereto as Exhibit B, and all such other assignments, endorsements and instruments of transfer as shall be necessary or appropriate to carry out the intent of this Agreement and as shall be sufficient to vest in Purchaser title to all of the Assets free and clear of any Encumbrances and to evidence Purchaser's assumption of the Assumed Liabilities.

2.4 Employees and Agents of Seller.

(a) On the Closing Date, Purchaser shall offer the employees of Seller listed on Schedule 2.4 (the "Transferring Employees") employment with the Purchaser, on the terms mutually agreed to by the Purchaser and the employee. Seller hereby agrees to such solicitation and agrees to encourage such employees to go to work for the Purchaser and not to discourage any individuals who are offered employment with Purchaser from accepting such employment with Purchaser.

(b) Purchaser and Parent will not assume sponsorship of any of the Seller's Plans.

(c) Effective on the Closing, Seller shall terminate the employment of all Transferring Employees, and indemnify and hold harmless the Purchaser and Parent against all claims made by any Transferring Employee as set forth in Section 13.3. Purchaser shall provide all Transferring Employees with wages and benefits (other than stock options) which are comparable to the wages and benefits as set forth on Schedule 2.4(c). Purchaser intends to provide certain key Transferring Employees options to acquire Parent common stock pursuant to the Parent's stock option plans but Purchaser shall have no obligation to provide stock options to any Transferring Employee.

(d) Effective as of the Closing Date, the Purchaser shall assume the liability of the Seller in respect of the Transferring Employees for accrued but unpaid salaries, wages, vacation and sick pay, but only to the extent such liability is reflected on Schedule 2.4(c) hereto and not to include vacation time accrued for any period before the last twelve (12) months (the "Assumed Employee Expenses"). Except as set forth in the preceding sentence, Seller shall remain responsible for payment of any and all other Employee Claims as provided in Section 13.3 hereof.

(e) Seller and Purchaser agree that Purchaser has purchased substantially all the property used in a separate unit of Seller's trade or business. Accordingly, pursuant to Rev. Proc. 96-60, 1996-2 C.B. 399, provided that Seller provides Purchaser with all necessary payroll records for the calendar year which includes the Closing Date, Purchaser shall furnish a Form W-2 to each Transferring Employee disclosing all wages and other compensation paid for such calendar year, and taxes withheld therefrom, and Seller shall be relieved of the responsibility to do so.

(f) Except as contemplated in this Section 2.4, for a period of one year after Closing, Purchaser and Parent will not solicit for employment, directly or indirectly, any employee of Seller or PFSweb. For a period of one year after Closing, PFSweb and Seller will not solicit for employment, directly or indirectly, any Transferring Employee or any employee of Purchaser or Parent.

2.5 Termination of Certain Agreements. Each Party will execute the Termination Agreement, the form of which is attached hereto as Exhibit C that provides for the termination of the Transaction Management Services Agreement dated December 7, 1999 between PFSweb, Inc./Priority Fulfillment Services, Inc. and Daisytek, Inc., (the "TMSA") and the Strategic Alliance Services Agreement dated July 15, 1999 between B.A. Pargh Company, a wholly-owned subsidiary of the Purchaser, and PFSweb, Inc./Priority Fulfillment Services, Inc. (the "SASA"). Each Party will remain subject to the confidentiality provisions of the TMSA and the SASA and such sections are hereby incorporated herein.

2.6 Transition Agreement. Each Party will execute and deliver to the other at the Closing, the Transition Agreement substantially in the form attached hereto as Exhibit D.

2.7 Deposits. Effective at the Closing, Seller will sell, convey, transfer, assign and deliver to Purchaser, and Purchaser will acquire and accept from Seller, all rights to any deposits or advances made in connection with leases for Assets.

ARTICLE III
PURCHASE PRICE

3.1 Purchase Price. The purchase price (the "Purchase Price") for the Assets shall be (a) Ten Million Dollars (\$10,000,000) plus (b) the Deferred Payments plus (c) the mutual execution and delivery of the Termination Agreement including releases minus (d) the Assumed Employee Expenses (except for the sick pay portion thereof), subject to the adjustments set forth in Sections 3.5 and 3.6 hereof.

3.2 Method of Payment of Purchase Price Payable at the Closing. The Purchase Price shall be delivered by Purchaser on the Closing Date and Purchaser shall assume the Assumed Liabilities on the Closing Date as follows:

(a) by wire transfer of immediately available funds to the Seller's Bank Account in an amount equal to Ten Million Dollars (\$10,000,000) (the "Cash Payment"), subject to the adjustments as set forth on Schedule 3.2.

(b) by payment of One Hundred Sixty-Six Thousand Six Hundred Sixty-Six Dollars and Sixty-Six Cents (\$166,666.66) on each of July 31, 2001, August 31, 2001, September 28, 2001, October 31, 2001 and a final payment of \$333,333.44 on November 26, 2001 (each, a "DEFERRED PAYMENT" and collectively, the "DEFERRED PAYMENTS") for aggregate Deferred Payments equal to One Million Dollars (\$1,000,000); provided that each Deferred Payment shall be subject to the rights of offset set forth in this Agreement and the Transition Agreement.

(c) by Purchaser's assumption of the obligations for Assumed Employee Expenses.

(d) by Purchaser's execution of the Termination Agreement in order to effectuate the releases set forth therein.

(e) by Purchaser's execution and delivery to Seller at the Closing of an Assumption Agreement in substantially the form attached hereto as Exhibit B.

3.3 Allocation of Purchase Price. Subject to adjustment as set forth herein, for tax purposes the Purchase Price shall be allocated among the Assets and other matters as set forth on Schedule 3.3. Purchaser and Seller shall report the allocation on Internal Revenue Service Form 8594 in a manner consistent with the allocation provided in Schedule 3.3, subject to the adjustments set forth herein.

3.4 Right of Offset for Claims. Parent and Purchaser shall have the option, in addition to and not in lieu of any other available rights or remedies hereunder, in the event Seller is determined to owe any indemnification amount in accordance with the procedures of Article

XIII of this Agreement, and Seller fails to pay such amount, Parent and Purchaser shall have the right to offset such amount against the Deferred Payments and the amounts payable under the Transition Agreement, in each case, respectively, in accordance with the terms and provisions set forth herein and therein.

3.5 Proration of Taxes. All real and personal property taxes and special assessments payable but not yet due with respect to any of the Assets shall be prorated between Seller and Purchaser as set forth on Schedule 3.5 on the basis of actual days elapsed between the commencement of the current fiscal tax year and the Closing Date, based on a 365-day year; provided that all such taxes and assessments which Seller has agreed to pay on an installment basis shall be paid in full at or prior to the Closing Date. In connection with such proration of taxes, in the event that actual tax figures for the year of Closing are not available at the Closing Date, an estimated, provisional proration of taxes shall be made using tax figures from the preceding year together with such increases or decreases thereof as Purchaser and Seller may agree. It is the intent of the parties that the Seller shall be responsible for all tax liabilities related to the Assets up to and including the Closing Date, and Purchaser shall be responsible for all tax liabilities related to the Assets following the Closing. In the event that one of the parties later receives a bill showing such charges to be more or less than originally estimated, such party shall send notice to the other party within thirty (30) days of such receipt (the "Recalculation Notice") with a statement indicating the amount overpaid or underpaid by such other party. The party that underpaid shall pay the other party within thirty (30) days of receipt of the Recalculation Notice unless such amount is disputed utilizing the procedures set forth in Section 13.9. All transfer taxes, if any, arising from the sale of the Assets shall be borne by Seller.

3.6 Proration of Utility Charges and Other Payments. In any case in which the Closing Date shall fall on a date other than the date on which payments are due, and for which a final billing has not been obtained by Seller, with respect to any utility or similar regular periodic charge respecting the Assets or the Leased Real Property including, but not limited to, common area maintenance charges, any such utility or similar charge payable with respect to the current period in which the Closing Date occurs shall be prorated between Seller and Purchaser on the basis of the actual number of days elapsed from the first day of such period to the Closing Date as set forth on Schedule 3.6. In the event that one of the parties later receives a bill showing such charges to be more or less than originally estimated, such party shall send a Recalculation Notice to the other party within thirty (30) days of such receipt with a statement indicating the amount overpaid or underpaid by such other party. The party that underpaid shall pay the other party within thirty (30) days of receipt of the Recalculation Notice unless such amount is disputed utilizing the procedures set forth in Section 13.9. Appropriate adjustment shall also be made at Closing to apportion the Assumed Liabilities so that Seller shall be responsible for, and enjoy the benefits of, the Assumed Liabilities for the period prior to and including the Closing Date, and Purchaser shall be responsible for, and enjoy the benefits of, the Assumed Liabilities for the period following the Closing Date.

3.7 Additional Rights for Assets. Effective on the Closing Date, Seller hereby constitutes and appoints Purchaser the true and lawful attorney of Seller, with full power of substitution, in the name of Seller or Purchaser, but on behalf of and for the benefit of Purchaser: (i) to demand and receive from time to time any and all the Assets and to make endorsements and

give receipts and releases for and in respect of the same and any part thereof; (ii) to institute, prosecute, compromise and settle any and all Actions that Purchaser may deem proper in order to assert or enforce any claim, right or title of any kind in or to the Assets; (iii) to defend or compromise any or all Actions in respect of any of the Assets; and (iv) to do all such acts and things in relation to the matters set forth in the preceding clauses (i) through (iii) as Purchaser shall deem desirable. Seller hereby acknowledges that the appointment hereby made and the powers hereby granted are coupled with an interest and are not and shall not be revocable by it in any manner or for any reason. Seller shall deliver to Purchaser at Closing an acknowledged power of attorney to the foregoing effect executed by Seller. Purchaser shall indemnify and hold harmless Seller from any and all Losses caused by or arising out of any breach of Law by Purchaser in its exercise of such power of attorney.

3.8 Transfer and Conveyance. Notwithstanding anything contained herein to the contrary, this Agreement shall not constitute an agreement to assign any Asset or Assumed Contracts if an assignment or attempted assignment of the same without the consent of another Person would constitute a breach thereof or in any way impair the rights of Purchaser thereunder or give to any third party any rights with respect thereto. If any such consent is not obtained prior to the Closing Date or if an attempted assignment would be ineffective or would impair Purchaser's rights under any such Asset or Assumed Contract so that it would not receive all such rights and responsibilities, then, except for those required consents set forth on Schedule 3.8, (i) Seller shall use commercially reasonable efforts to provide or cause to be provided to Purchaser, to the extent permitted by law, the benefits of any such Asset or Assumed Contract and (ii) in consideration thereof Purchaser shall pay, perform and discharge on behalf of Seller such of the Seller's liabilities thereunder to the extent that the Purchaser would have been responsible if such consent or approval had been obtained. In addition, Seller shall take such other actions as may reasonably be requested by Purchaser in order to place Purchaser, insofar as reasonably possible, in the same position as if such Asset or Assumed Contracts had been transferred as contemplated hereby and so all the benefits and burdens relating thereto, including possession, use, risk of loss, potential for gain and dominion, control and command, shall inure to Purchaser. If and when such consents and approvals are obtained, the transfer of the applicable Asset or Assumed Contract shall be effected in accordance with the terms of this Agreement.

ARTICLE IV REPRESENTATIONS AND WARRANTIES OF SELLER AND PFSWEB

The Seller and PFSweb, jointly and severally, represent and warrant to the Purchaser as follows:

4.1 Due Organization and Qualification. Each of Seller and PFSweb is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own, lease or operate its properties and to carry on its business as it is presently being operated and in the place where such properties are owned, leased or operated and such business is conducted.

4.2 Corporate Power and Authority. The execution, delivery and performance of this Agreement and Additional Documents by Seller and PFSweb and the consummation by them of

the transactions contemplated hereby and thereby, have been duly authorized by all requisite corporate action, including, but not limited to, Board of Director approvals, and no vote of shareholders or further action or approval is required to permit Seller and PFSweb to consummate the transactions contemplated hereby and thereby. This Agreement and Additional Documents when executed and delivered in accordance with the terms thereof, will constitute, the legal, valid and binding obligations of Seller and PFSweb, enforceable in accordance with their terms, Seller and PFSweb have full power, authority and legal right to enter into this Agreement and the Additional Documents and to consummate the transactions contemplated hereby and thereby. The making and performance of this Agreement and the Additional Documents and the consummation of the transactions contemplated hereby and thereby in accordance with the terms hereof and thereof will not (a) conflict with the Certificate of Incorporation or the Bylaws of Seller or PFSweb, (b) result in any breach or termination of, or constitute a default under, or constitute an event that with notice or lapse of time, or both, would become a default under, or result in the creation of any Encumbrance upon any of the Assets under, or create any rights of termination, cancellation or acceleration in any person under, any Assumed Contract, or violate any order, writ, injunction or decree, to which Seller or PFSweb is a party, by which any of the Assets, business or operations of Seller or PFSweb may be bound or affected or under which any of the Assets, business or operations of Seller or PFSweb receive benefits, except as set forth in Schedule 4.2, (c) result in the loss or adverse modification of any license, franchise or permit granted to or otherwise held by Seller or PFSweb required for the Business except as set forth in Schedule 4.2 or (d) result in the violation of any provisions of law applicable to Seller or PFSweb, the violation of which would reasonably be expected to have a Material Adverse Effect. Based upon the Seller's estimate of its going concern value, the Seller is not insolvent as of the date hereof, will not be insolvent on the Closing Date and the transfer of the assets contemplated hereby will not render it insolvent. The transactions contemplated hereby are not being done with actual intent to hinder, delay, or defraud any entity to which the Seller is, or reasonably expects to become, indebted on or after the Closing Date. Based upon the PFSweb's estimate of its going concern value, PFSweb is not insolvent as of the date hereof, will not be insolvent on the Closing Date and the transfer of the assets contemplated hereby will not render it insolvent. The transactions contemplated hereby are not being done with actual intent to hinder, delay, or defraud any entity to which PFSweb is, or reasonably expects to become, indebted on or after the Closing Date.

4.3 Real Property.

(a) Schedule 4.3 lists: (i) the address of Leased Real Property, (ii) the identity of the lessor, lessee and current occupant (if different from lessee) of the Leased Real Property and (iii) the term pertaining to the Leased Real Property.

(b) Except as described in Schedule 4.3, Seller has not received any written notice of any violation of any law, regulation or ordinance relating to any of the Leased Real Property. Seller has made available to Purchaser true and correct copies of, if any, all certificates of occupancy, environmental reports and appraisals which it currently possesses in respect of the Leased Real Property. Seller, as the lessee of each parcel of Leased Real Property, is in peaceful and undisturbed possession of such parcel of Leased Real Property, and there are no contractual legal restrictions to which Seller or PFSweb is a party which preclude or restrict the ability to use

the subject premises for the purposes for which they are currently being used which would reasonably be expected to have a Material Adverse Effect. Except as set forth in Schedule 4.3, Seller has not leased or subleased any parcel of Leased Real Property to any other Person, nor has Seller assigned its interest under any lease or sublease set forth in Schedule 4.3 to any third party.

(c) Seller has delivered to Purchaser correct and complete copies of all leases and subleases set forth in Schedule 4.3 and any amendments. With respect to each of these leases and subleases:

(i) such lease or sublease, as amended is legal, valid, binding, enforceable and in full force and effect with respect to Seller, and, to the knowledge of Seller, with respect to all other parties thereto and is the entire agreement between the parties thereto with respect to such property;

(ii) except as otherwise set forth in Schedule 4.3, such lease or sublease will not cease to be legal, valid, binding, enforceable and in full force and effect on terms identical to those currently in effect as a result of the consummation of the transactions contemplated by this Agreement, nor will the consummation of the transactions contemplated hereby constitute a breach or default under such lease or sublease or otherwise give the landlord a right to terminate, recapture or modify such lease or sublease;

(iii) except as otherwise disclosed in Schedule 4.3, with respect to each such lease or sublease: (A) Seller has not received any notice of cancellation or termination under such lease or sublease and, no lessor has any right of termination or cancellation under such lease or sublease except in connection with the default of Seller thereunder, (B) Seller has not received any notice of a breach or default by Seller under such lease or sublease, and (C) Seller has not granted to any other Person any material rights, adverse or otherwise, under such lease or sublease; or

(iv) except as set forth in Schedule 4.3, neither Seller nor, to Seller's Knowledge, any other party to such lease or sublease is in breach or default in any respect, and no event has occurred that, with notice or lapse of time, would constitute such a breach or default by Seller or any other party to such lease or sublease or permit termination or acceleration of such lease or sublease.

(d) Seller has received no written notice of the commencement of any condemnation proceedings or eminent domain proceedings of any kind against the Leased Real Property. To Seller's Knowledge, there are no condemnation proceedings or eminent domain proceedings of any kind threatened against the Leased Real Property.

4.4 Personal Property; Title to Property.

(a) Set forth on Schedule 4.4 is a list of all Assets.

(b) Except for the leased Assets as listed on Schedule 4.4, Seller is the legal and equitable owner and has good and indefeasible title to all of the Assets, and upon conveyance

of the Assets to Purchaser by Seller at the Closing, Purchaser will acquire and hold indefeasible title to all of the Assets, whether real, personal, tangible, intangible or mixed, free and clear of any and all Encumbrances. Seller enjoys peaceable possession of all Assets. Except for the Excluded Assets, the Assets constitute all the assets necessary to conduct the Business as currently conducted on the date hereof. The Assets listed on Schedule 2.1A constitute all of the Assets located, as of the Closing Date, at the Leased Real Property. All of the assets listed in the MMH Certificate continue to be located at the Leased Real Property as of the Closing Date.

(c) With respect to any leased Assets: (i) the lease agreement is legal, valid, binding, enforceable, and in full force and effect; (ii) the lease agreement will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Section 2.2 above); (iii) no party is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification, or acceleration, under the lease agreement; and (iv) no party has repudiated any provision of the lease agreement.

4.5 [Intentionally Omitted]

4.6 Permits. Seller owns and holds all licenses, franchises, permits, titles and other governmental authorizations (including, without limitation, motor vehicle titles and current registrations), Environmental Permits, licenses, and franchises, the absence of any of which would have a Material Adverse Effect (the "Material Permits"). An accurate list of all such Material Permits is set forth on Schedule 4.6 hereto. The Material Permits are valid and, to the extent permitted by Law or the terms thereof, will be transferred to Purchaser at the Closing, and to Seller's Knowledge no governmental authority intends to cancel, terminate or not renew any such Material Permit. Seller has conducted and is conducting the Business in compliance with the requirements, standards, criteria and conditions set forth in the Material Permits and is not in violation of any of the foregoing except where such noncompliance or violation would not have a Material Adverse Effect. Except as specifically provided on Schedule 4.6, the transactions contemplated by this Agreement will not result in a default under or a breach or violation of, or adversely affect the rights and benefits afforded to Seller, or to Purchaser after the Closing, by any such Material Permits.

4.7 Compliance with Laws. The Seller has not received notice of any investigation, threatened or contemplated, by any federal, state or local agency or Governing Authority, which remains unresolved involving the Business or the Assets, including, but not limited to, the safety aspects of the Assets or the safe working conditions and environment of its employees at the Leased Property or employment practices or policies.

4.8 Assumed Contracts. Seller owns all rights granted to Seller under any contract, agreement, lease or license that Purchaser has elected to assume as an Assumed Liability (the "Assumed Contracts") and has not made any assignment, pledge or other transfer of such rights.

4.9 Contract Defaults. Seller is not in default nor has any act occurred which upon the passage of time will constitute a default by Seller and Seller has not been declared to be in default in any respect under Assumed Contract, and such Assumed Contracts are legal, valid and

binding obligations of the Seller and, to Seller's Knowledge, the other parties thereto in accordance with their terms and, except to the extent reflected in Schedule 4.9, have not been amended and no defenses, offsets or counterclaims thereto have been asserted by any party thereto other than Seller nor has Seller waived any rights thereunder. Except as set forth on Schedule 4.9, each of the Assumed Contracts is assumable by the Purchaser and will not cease to be legal, valid, binding, enforceable and in full force and effect on terms identical to those currently in effect as a result of the consummation of the transactions contemplated by this Agreement, nor will the consummation of the transactions contemplated hereby constitute a breach or default under such contract or otherwise give the other party thereto a right to terminate, recapture or modify such contract.

4.10 Litigation. There are no Actions pending against Seller or, to the knowledge of Seller, threatened against Seller, Seller's business, including, without limitation, the Business or the Assets, or any property or rights of Seller, at law or in equity or before or by any Governing Authority. Seller is not in default with respect to any order, writ, injunction or decree of any Governing Authority with respect to the Assets, the Business or the operations or employees of the Business.

4.11 Private Letter Ruling. PFSweb examined the letter from the Parent to the IRS dated April 6, 2001 requesting a supplemental ruling to PLR 100247-00 (the "Supplemental Ruling Request") and the facts presented and the representations made therein, to the extent descriptive of PFSweb or the Controlled Group or the business of PFSweb or the Controlled Group (including, without limitation, the business purposes for the Separation and the Purchase, that none of the cash received as part of the Separation will be distributed, directly or indirectly, to the shareholders of PFSweb, the representations in the Supplemental Ruling Request to the extent that they relate to PFSweb or the Controlled Group or the business of PFSweb or the Controlled Group and the plans, proposals, intentions and policies of PFSweb and the Controlled Group), shall be treated as having been made by PFSweb and are true, correct, and complete. Neither the Purchaser nor the Parent will have liability for any misrepresentations made by PFSweb in this Section 4.11. A breach of the representations made in this Section 4.11 shall be deemed a Prohibited Action (as defined in the Tax Allocation Agreement).

4.12 Absence of Undisclosed Liabilities. There are no liabilities, contingent or otherwise, except as disclosed on Schedule 2.2, for which Purchaser or Parent would be obligated or which would attach to or follow the Assets.

4.13 Employee Benefit Plans. Each employee benefit plan within the meaning of Section 3(3) of ERISA, maintained or contributed to by Seller and used for any of the Transferring Employees (collectively, the "Plans") is listed on Schedule 4.13. Neither the Purchaser nor the Parent will have liability under any of the Plans.

4.14 Employees; Employee Relations.

(a) Schedule 4.14 sets forth (i) the name and current annual salary (or rate of pay) and other compensation (including, without limitation, normal bonus, profit-sharing and other compensation) now payable by Seller to each Transferring Employee, (ii) any increase to become effective after the date of this Agreement in the total compensation or rate of total compensation payable by Seller to each such person, and (iii) all accrued but unpaid vacation pay owing to any Transferring Employee.

(b) Seller is not a party to, or bound by, the terms of any collective bargaining agreement that covers any Transferring Employee. Except as set forth on Schedule 4.14, there are no labor disputes existing or, to the best knowledge of Seller, threatened that involve, by way of example, strikes, work stoppages, slowdowns, picketing, or any other interference with work or production, or any other concerted action by employees that involve any of the Transferring Employees. No charges or proceedings before the National Labor Relations Board, or similar agency, exist or, to the best knowledge of Seller, are threatened that relate to the Business. To the Seller's Knowledge, there are no attempts being made to organize any employees presently employed in the Business nor have any employees left or been fired who were attempting to organize the employees. To Seller's Knowledge, all of the Transferring Employees will continue to be available on substantially the same terms and conditions to the Purchaser following Closing.

(c) Except as disclosed on Schedule 4.14, Seller is not a party to any employment agreement or other agreement with any Transferring Employee. No Actions have been commenced nor to the Seller's Knowledge are threatened against Seller by any employee of Seller concerning such employee's work with the Business under any federal, state or local laws in respect of the employment relationship of such employee or the independent contractor relationship of any contractor or consultant, including, but not limited to, Actions under: (i) anti-discrimination statutes such as Title VII of the Civil Rights Act of 1964, as amended (or similar state or local laws prohibiting discrimination because of race, sex, religion, national origin, age and the like); (ii) the Fair Labor Standards Act or other federal, state or local laws regulating hours of work, wages, overtime and other working conditions; (iii) requirements imposed by federal, state or local Governing contracts such as those imposed by Executive Order 11246; (iv) state laws with respect to tortious employment conduct, such as slander, harassment, false light, invasion of privacy, negligent hiring or retention, intentional infliction of emotional distress, assault and battery, or loss of consortium; (v) the Occupational Safety and Health Act, as amended, as well as any similar state laws, or other regulations respecting safety in the workplace; or (vi) any state or federal statutes, rules or regulations classifying persons as employees rather than independent contractors. Seller is not subject to any settlement or consent decree with any present or former employee, employee representative or any Governing Authority relating to claims of discrimination or other claims in respect to employment practices and policies; and no Governing Authority has issued a judgment, order, decree or finding with respect to the labor and employment practices (including practices relating to discrimination) of Seller involving the Business.

(d) Since December 7, 1999, Seller has not incurred any liability or obligation under the WARN Act or similar state laws.

(e) The Seller does not owe any wages, salaries or bonuses to Transferring Employees for services rendered prior to the Closing Date that are not Assumed Employee Expenses and no claims have been made for any such amount by any Transferring Employee.

4.15 Consents. Except as set forth in Schedule 4.15 no consent, approval, authorization or order of any court, Governing Authority or any other person or under any Assumed Contract is required to permit Seller to convey the Assets free of Encumbrances, assign the Assumed Contracts or to otherwise consummate the transactions contemplated by this Agreement.

4.16 Insurance. Set forth on Schedule 4.16 is a summary description of all policies of fire, casualty, liability and other forms of insurance and all fidelity bonds held by Seller covering the Assets or the Business together with a list of all prepaid amounts, deposits and claims made other than health claims made by employees under group health plans.

4.17 Taxes. PFSweb and Seller have paid all Taxes which have become due or have been assessed against it or the Assets and all Taxes which any taxing authority has proposed or asserted to be owing, except for Taxes which are not yet due and payable or which it is contesting as set forth on Schedule 4.17. All Tax liabilities to which the properties of Seller may have been subjected have been discharged, except for Taxes assessed but not yet payable. There are no Tax claims for unpaid Taxes which are due and owing presently being asserted against Seller, PFSweb or the Assets and to Seller's Knowledge there is no basis for any such claim. Neither Seller nor PFSweb has granted any extension to any taxing authority of the limitation period during which any Tax liability against the Assets may be asserted thereby. The Assets will be conveyed to Purchaser at Closing free and clear of any claims or Encumbrances for Taxes incurred prior to the Closing Date, except for Taxes which are not yet due and payable.

4.18 Environmental Laws and Regulations. Except as set forth in the Mock OSHA Safety Survey prepared by Operations Excellence Inc. for a survey conducted from March 28, 2001 to March 29, 2001, (i) to Seller's Knowledge, the operations of the Leased Real Property and any use, storage, treatment, disposal or transportation of Hazardous Materials which has occurred in or on the Leased Real Property from December 7, 1999 to the Closing Date have been in compliance with Environmental Law, except for such noncompliance as would not reasonably be expected to have a Material Adverse Effect; (ii) to Seller's Knowledge, from December 7, 1999 to the Closing Date, no release, leak, discharge, spill, disposal or emission of Hazardous Materials has occurred in, on or under the Leased Real Property in a quantity or manner which violates or requires further investigation or Remedial Action under Environmental Law; (iii) to Seller's Knowledge, there is no pending or threatened litigation or administrative investigation or proceeding concerning the Leased Real Property involving Hazardous Materials or Environmental Laws; and (iv) to Seller's Knowledge, there are no above-ground or underground storage tank systems located at the Leased Real Property, except for two above ground diesel fuel tanks.

4.19 Absence of Certain Changes or Events. Neither Seller nor PFSweb has suffered any event or circumstance which could reasonably be expected to preclude Purchaser from using

the Assets in the manner previously used by Seller in the Business or received any notice of any claim asserted against it by any Governing Authority which could reasonably be expected to preclude Purchaser from using the Assets in the manner previously used by Seller in the Business.

4.20 [Intentionally Omitted]

4.21 Agreements with Guaranties. Schedule 4.21 sets forth a list of all agreements to which the Seller or PFSweb is a party and for which the Parent or the Purchaser has guaranteed the performance and all amounts owing thereunder (the "Guaranteed Agreements"). With respect to each Guaranteed Agreement, neither Seller nor PFSweb is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default by Seller or PFSweb, or permit termination, modification, or acceleration, under such agreement. Seller and PFSweb have been notified by the Parent and the Purchaser of their intent, subject to Section 7.3, to notify, after June 15, 2001, all parties holding guaranties in connection with the Guaranteed Agreements that, effective upon Closing or such other date as otherwise required by the terms of any guaranties in connection with the Guaranteed Agreements (the "Guaranty Revocation Date"), Parent and Purchaser will no longer act as guarantor under the Guaranteed Agreements for amounts incurred from the Guaranty Revocation Date.

4.22 True, Correct and Complete Information. No representation or warranty by Seller and PFSweb contained in this Agreement, in the schedules attached hereto or in any certificate furnished by Seller and PFSweb to Purchaser in connection herewith or pursuant hereto contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any statement herein or therein, in light of the circumstances in which it was made, not misleading.

4.23 Broker's and Finder's Fees. Neither Seller nor PFSweb has made any agreement with any Person, or taken any action which would cause any Person, to become entitled to an agent's, broker's or finder's fee or commission in connection with the transactions contemplated by this Agreement.

ARTICLE V REPRESENTATIONS AND WARRANTIES OF PURCHASER AND PARENT

Purchaser and Parent, jointly and severally, represent and warrant to the Seller as follows:

5.1 Organization and Authority. Each of Purchaser and Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own or lease its properties and to carry on its business as it is presently being operated and in the place where such properties are owned or leased and such business is conducted. The execution, delivery and performance of this Agreement by each of Purchaser and Parent, and all other agreements by and among the parties, and the consummation by it of the transactions contemplated hereby and thereby, have been duly authorized by all requisite corporate action and no further action or approval is required in order to permit Purchaser and/or Parent to consummate the transactions contemplated hereby and thereby. This Agreement constitutes, and all other agreements by and among the parties, when

executed and delivered in accordance with the terms thereof, will constitute the legal, valid and binding obligations of each of Purchaser and/or Parent, enforceable in accordance with their terms. Each of Purchaser and Parent has full power, authority and legal right to enter into this Agreement and all other agreements by and among the parties and to consummate the transactions contemplated hereby and thereby. The making and performance of this Agreement, and all other agreements by and among the parties, and the consummation of the transactions contemplated hereby and thereby in accordance with the terms hereof and thereof will not conflict with the Certificate of Incorporation or the Bylaws of Purchaser or Parent.

5.2 Corporate Power and Authority. The execution, delivery and performance of this Agreement and Additional Documents by Purchaser and Parent and the consummation by them of the transactions contemplated hereby and thereby, have been duly authorized by all requisite corporate action, including, but not limited to, Board of Director approvals, and no further action or approval is required to permit Purchaser and Parent to consummate the transactions contemplated hereby and thereby. This Agreement and Additional Documents when executed and delivered in accordance with the terms thereof, will constitute, the legal, valid and binding obligations of Purchaser and Parent, enforceable in accordance with their terms. Purchaser and Parent have full power, authority and legal right to enter into this Agreement and the Additional Documents and to consummate the transactions contemplated hereby and thereby. The making and performance of this Agreement and the Additional Documents and the consummation of the transactions contemplated hereby and thereby in accordance with the terms hereof and thereof will not (a) conflict with the Certificate of Incorporation or the Bylaws of Purchaser and Parent, (b) result in any breach or termination of, or constitute a default under, or constitute an event that with notice or lapse of time, or both, would become a default under, or result in the creation of any Encumbrance upon any of the assets of, or create any rights of termination, cancellation or acceleration in any person under any contract of, or violate any order, writ, injunction or decree, to which Purchaser and Parent is a party, by which any of the assets, business or operations of Purchaser and Parent may be bound or affected or under which any of the assets, business or operations of Purchaser and Parent receive benefits, or (c) result in the violation of any provisions of law applicable and material to Purchaser and Parent.

5.3 Consents. Except as set forth on Schedule 5.3, no consent, approval, authorization or order of any court, Governing Authority or any other person is required in order to permit Purchaser or Parent to consummate the transactions contemplated by this Agreement.

5.4 True, Correct and Complete Information. No representation or warranty by Purchaser and Parent contained in this Agreement, in the schedules attached hereto or in any certificate furnished by Purchaser and Parent to Seller in connection herewith or pursuant hereto contains any untrue statement of a material fact or omits to state any material fact necessary in order to make any statement herein or therein, in light of the circumstances in which it was made, not misleading.

5.5 Broker's and Finder's Fees. Purchaser and Parent have not made any agreement with any Person, or taken any action which would cause any Person, to become entitled to an agent's, broker's or finder's fee or commission in connection with the transactions contemplated by this Agreement.

5.6 Private Letter Ruling. Parent hereby represents and warrants, on its own behalf and on behalf of each member of the Distributing Group, that (i) it has examined the Supplemental Ruling Request, and (ii) the facts presented and the representations made therein, to the extent descriptive of Parent or the Distributing Group or the business of Parent or the Distributing Group (including, without limitation, the business purposes for the Separation and the Purchase, the representations in the Supplemental Ruling Request to the extent that they relate to Parent or the Distributing Group or the business of Parent or the Distributing Group and the plans, proposals, intentions and policies of Parent and the Distributing Group), shall be treated as having been made by Parent and are true, correct, and complete. Neither the Seller nor PFSweb will have liability for any misrepresentations made by the Parent in connection therewith. A breach of the representations made in this Section 5.6 shall be deemed a Prohibited Action (as defined in the Tax Allocation Agreement).

ARTICLE VI
COVENANTS OF SELLER

The Seller covenants and agrees with Purchaser as follows:

6.1 Notices. Seller will timely give all notices required to be given relating to the transactions contemplated hereby, including without limitation, (i) required to be given to employees and (ii) any notices required to be given to all creditors or claimants against Seller.

6.2 Access to Books, Records and Properties.

(a) Seller agrees to provide Purchaser, its accountants, counsel and other representatives, during normal business hours and upon reasonable notice, for a period of four years (plus such longer period of time should the statute of limitations for any matter for which Purchaser has or is asserted to have liability which relates to information or records which the Seller has) after the Closing Date, access to the books, records, income tax returns, contracts and other underlying data and documentation of Seller relating to the Assets, Business or Transferring Employees during the period prior to the Closing Date and to make available to Purchaser, personnel of Seller in Purchaser's review thereof for the purpose of enabling them to determine and calculate any tax liabilities in connection with the Assets, Business or the Transferring Employees. Seller agrees that, for such four-year period, it will preserve and keep intact all such books and records.

(b) Purchaser agrees to provide Seller, its accountants, counsel and other representatives, during normal business hours and upon reasonable notice, for a period of four years (plus such longer period of time should the statute of limitations for any matter for which Seller has or is asserted to have liability which relates to information or records which the Seller has) after the Closing Date, access to the books, records, income tax returns, contracts and other underlying data and documentation of Purchaser relating to the Assets, Business or Transferring Employees during the period prior to the Closing Date and to make available to Seller, personnel of Purchaser in Seller's review thereof for the purpose of enabling them to determine and calculate any tax liabilities in connection with the Assets, Business or Transferring Employees. Purchaser agrees that, for such four-year period, it will preserve and keep intact all such books and records.

6.3 Approvals of Third Parties. As soon as practicable after the date hereof, the Seller will use its best efforts to secure all necessary consents, approvals and clearances of third parties that Parent or Purchaser has requested, but that were not obtained prior to the Closing and were waived by the Parent and Purchaser as conditions to the closing.

6.4 Obligations under Guaranteed Agreements. Seller and PFSweb each hereby agree to perform and discharge all of their obligations under such Guaranteed Agreements. The obligations of Seller and PFSweb under this Section 6.4 will expire when Seller and PFSweb have paid all obligations under the Guaranteed Agreements and all guarantees of Purchaser and Parent under the Guaranteed Agreements have terminated.

6.5 Certificate of Memphis Material Handling, Inc. Seller shall deliver to Purchaser on or before June 15, 2001 a certificate from an authorized officer of Memphis Material Handling, Inc. (the "MMH Certificate") certifying that the list of assets they prepared contains a list of every Asset located in Building H, known as 4650 Quality Drive in Memphis, Tennessee, as identified in a survey conducted from April 11, 2001 through April 13, 2001.

ARTICLE VII COVENANTS OF PURCHASER AND PARENT

7.1 Approvals. Purchaser and Parent will each take all necessary corporate and other action and file all documents required to obtain, and will use its reasonable efforts to obtain, all approvals of regulatory authorities, consents and approvals required of it to carry out the transactions contemplated by this Agreement and will cooperate with the Seller to obtain all such approvals and consents required by Purchaser and Parent.

7.2 BSD. Seller and its Affiliates, Priority Fulfillment Services Canada, Inc. and Priority Fulfillment Services Europe B.V. (collectively, the "PFS Group"), provide certain services ("Services") to Purchaser's subsidiary, Business Supplies Distributors, Inc. ("BSD") and its Affiliates, BSD (Canada), Inc. and Business Supplies Distributors Europe B.V., (collectively, including Priority Fulfillment Services Australia Pty Ltd and Priority Fulfillment Services de Mexico S.A. de C.V., the "BSD Group"), in connection with the purchase and sale by the BSD Group (the "BSD Business") of various IBM products (the "IBM Products") pursuant to various IBM Master Distributor Agreements set forth on Schedule 7.2 hereof (the "IBM Agreements"). Parent covenants and agrees that between the date hereof and December 31, 2001 (i) it will provide reasonable cooperation to Seller in connection with the proposed transition and transfer of the BSD Business and the IBM Agreements to the PFS Group or its designee and (ii) it will not become a master distributor of IBM products, as provided in the IBM Agreements or, so long as the PFS Group is a master distributor of IBM products, become a second master distributor of IBM products. Nothing contained herein shall restrict Parent or its Affiliates (other than the BSD Group) from continuing to conduct its business as it is currently being conducted, which includes the distribution and sale of IBM products.

7.3 Agreements with Guaranties. Parent and Purchaser will not rescind, revoke or terminate any guaranty if, under the terms of the applicable Guaranteed Agreement, such action

would, with or without notice or lapse of time, constitute a breach or default by Seller or PFSweb, or permit termination or acceleration under such Guaranteed Agreement and prior to June 15, 2001, Seller has provided written notice of such potential breach, default, termination or acceleration.

ARTICLE VIII
DATE AND PLACE OF CLOSING

8.1 Date and Place of Closing. Subject to satisfaction or waiver of the conditions to the obligations of the parties, the purchase and sale of the Assets pursuant to this Agreement will occur at a closing (the "Closing") to be held in the offices of Munsch Hardt Kopf & Harr, P.C., 1445 Ross Avenue, 40th Floor, Dallas, Texas 75202, or such other place as mutually agreed to by the parties, at midnight Dallas, Texas time, on May 25, 2001, or such other date as the parties may mutually agree upon (the "Closing Date") to be effective on such Closing Date. The parties may mutually agree to close this transaction via the prior delivery of the closing documents, the facsimile of executed signature pages and the wiring of the Cash Payment.

ARTICLE IX
CONDITIONS TO OBLIGATIONS OF PURCHASER AND PARENT

The obligations of Purchaser and Parent to cause the purchase of the Assets and the other transactions contemplated hereby to occur at Closing shall be subject to the satisfaction on or prior to the Closing Date of all of the following conditions, except such conditions as Purchaser and Parent may waive in writing:

9.1 Representations and Warranties of Seller. All of the representations and warranties of Seller contained in this Agreement and in any Schedule or other disclosure in writing from Seller shall have been true and correct when made, and shall be true and correct on and as of the Closing Date with the same force and effect as though such representations and warranties had been made on and as of the Closing Date, except for such representations as are made as of a different date which shall be true and correct as of such different date.

9.2 Covenants of Seller. All of the covenants and agreements herein on the part of Seller to be complied with or performed on or before the Closing Date shall have been fully complied with and performed.

9.3 Seller's Certificate. There shall be delivered to Purchaser a certificate dated as of the Closing date and signed by the President or a Vice President of Seller to the effect set forth in Sections 9.1 and 9.2, which certificate shall have the effect of a representation and warranty made by Seller on and as of the Closing Date.

9.4 Litigation. At the Closing Date, there shall not be pending or threatened any litigation in any court or any proceeding before any Governing Authority (i) in which it is sought to restrain, invalidate, set aside or obtain damages in respect of the consummation of the purchase and sale of the Assets or the other transactions contemplated hereby; (ii) that could, if adversely determined, result in any Material Adverse Effect; or (iii) as a result of which, in the

reasonable judgement of Purchaser, Purchaser would be deprived of the material benefits of its ownership of the Assets.

9.5 Satisfactory to Purchaser's Counsel. All actions, proceedings, instruments and documents required to carry out this Agreement or incidental thereto and all other related matters shall have been satisfactory to Munsch Hardt Kopf & Harr, P.C., counsel for Purchaser.

9.6 No Material Adverse Effect. There shall not have occurred any Material Adverse Effect. Purchaser shall receive a certificate from Seller, dated as of the Closing Date and in form and substance satisfactory to Purchaser, as to the fulfillment of the conditions set forth in this Section 9.6.

9.7 Consents. Seller shall have obtained all orders, approvals, estoppel certificates or consents of third parties, including, without limitation, any orders, approvals, certificates or consents deemed necessary by counsel to Purchaser which shall be required to consummate the transactions contemplated hereby, including, without limitation, consents to the assignment of the Assumed Liabilities listed on Schedule 2.2.

9.8 [Intentionally Omitted]

9.9 Assurance from Tax Advisors. Purchaser and Parent shall have received assurance from their tax advisors, in form and substance reasonably acceptable to each of Purchaser and Parent, that the Transaction will not affect the tax-free status of the Spin-off.

ARTICLE X CONDITIONS TO OBLIGATIONS OF SELLER

The obligations of Seller to cause the sale of the Assets and the other transactions contemplated hereby to occur at Closing shall be subject to the satisfaction on or prior to the Closing Date of all of the following conditions, except such conditions as Seller may waive in writing.

10.1 Representations and Warranties of Purchaser and Parent. All of the representations and warranties of Purchaser and Parent contained in this Agreement and in any Schedule or other disclosure in writing from Purchaser or Parent shall have been true and correct when made, and shall be true and correct on and as of the Closing Date with the same force and effect as though such representations and warranties had been made on and as of the Closing Date, except for such representations as are made as of a different date which shall be true and correct as of such different date.

10.2 Covenants of Purchaser and Parent. All of the covenants and agreements herein on the part of the Purchaser and Parent to be complied with or performed on or before the Closing Date shall have been fully complied with and performed.

10.3 Purchaser's/Parent's Certificate. There shall be delivered to Seller a certificate dated as of the Closing Date and signed by the President or a Vice President of Purchaser and

Parent to the effect set forth in Sections 10.1 and 10.2, which certificate shall have the effect of a representation and warranty made by Purchaser and Parent on and as of the Closing Date.

10.4 Satisfactory to Seller's Counsel. All actions, proceedings, instruments and documents required to carry out this Agreement or incidental thereto and all other related legal matters shall have been satisfactory to Wolff & Samson, P.A., counsel for Seller.

10.5 Assurance from Tax Advisors. Seller shall have received assurance from its tax advisors, in form and substance reasonably acceptable to Seller, that the transaction contemplated hereby will not affect the tax-free status of the Spin-off.

ARTICLE XI CLOSING

11.1 Performance by Seller. At the Closing, concurrently with performance by Purchaser and Parent of their respective obligations to be performed at the Closing:

(a) Conveyances. Seller shall execute and deliver to Purchaser, in form and substance acceptable to Purchaser (i) a Bill of Sale and Assignment in substantially the form attached hereto as Exhibit A conveying to Purchaser all items of personalty included among the Assets, assignments of each of the contracts, leases, arrangements and commitments listed on Schedule 2.1A; (ii) all other assignments, endorsements and instruments of transfer as shall be necessary or appropriate to carry out the intent of this Agreement and as shall be sufficient to vest in Purchaser title to all of the Assets and all right, title and interest of Seller thereto and (iii) all other Additional Documents to which Seller is a party. If requested by Purchaser, such documents shall be in a form suitable for recording and shall be consented to by any third parties to such agreements.

(b) Records. Except as may be necessary for the proper fulfillment of its obligations under the Transition Agreement, Seller shall deliver to Purchaser all documents, agreements, reports, books, records and accounts pertaining specifically to the Assets that are in Seller's possession, including, but not limited to, the list of Material Permits attached as Schedule 4.6.

(c) Certificates. Seller shall execute and deliver to Purchaser such certificates as may be reasonably requested by the Purchaser, including, but not limited to, an Incumbency Certificates and an officer's certificates certifying that the representations and warranties contained herein are true.

(d) Certificates of Authorities. Seller shall deliver to Purchaser (i) certificates of the Secretary of State of Delaware, each dated as of a date not more than twenty (20) days prior to the Closing Date, attesting to the organization, existence and good standing of Seller and PFSweb and (ii) a copy, certified by an authorized officer of each of Seller and PFSweb, of resolutions duly adopted by the Board of Directors of each of Seller and PFSweb duly authorizing the transactions contemplated in this Agreement.

(e) Opinion of Seller's Counsel. Seller shall deliver to Purchaser the legal opinion of its counsel, Wolff & Samson, P.A., dated the Closing Date, as to the matters set forth in Sections 4.1 and 4.2, such opinion to be reasonably satisfactory to Purchaser.

(f) Consents. Seller shall deliver to Purchaser the Required Consents.

(g) Tax Proration Schedule. Seller shall deliver to Purchaser the tax proration schedule attached hereto as Schedule 3.5.

(h) Expenses Owed for TMSA and SASA. The parties shall mutually agree upon an invoice and payment schedule for all services performed under the TMSA and the SASA through the date of termination.

(i) Other Actions. Seller shall take all such other steps as may be necessary or appropriate to put Purchaser in actual and complete ownership and possession of the Assets.

11.2 Performance by Purchaser. At the Closing, concurrently with the performance by Seller of its obligations to be performed at the Closing, Purchaser shall:

(a) Purchase Price. Deliver to Seller the funds specified in Section 3.1.

(b) Assumption Agreement. Deliver to Seller the Assumption Agreement.

(c) Certificates of Authorities. Deliver the following to Seller (i) a certificate of the Secretary of State of Delaware, dated as of a date not more than twenty (20) days prior to the Closing Date, attesting to the organization, existence and good standing of Purchaser and Parent and (ii) a copy, certified by an authorized officer of Purchaser and Parent, of resolutions duly adopted by the Board of Directors of each of Purchaser and Parent duly authorizing the transactions contemplated in this Agreement.

(d) Expenses Owed for TMSA and SASA. At closing, Purchaser shall pay all invoices rendered by Seller to Purchaser under either the TMSA or the SASA, provided the invoices are delivered to Purchaser prior to the Closing Date for services already rendered and said invoices have been approved by Purchaser's personnel. The parties shall mutually agree upon an invoice and payment schedule for all services performed under the TMSA and the SASA through the date of termination.

(e) Opinion of Purchaser's Counsel. Purchaser shall deliver to Seller the legal opinion of its counsel, Munsch Hardt Kopf & Harr, P.C., dated the Closing Date, as to the matters set forth in Sections 5.1 and 5.2, such opinion to be reasonably satisfactory to Seller.

(f) Additional Documents. Execute and deliver to Seller the Additional Documents to which Purchaser and/or Parent is a party, as the case may be.

11.3 Other Instruments. In addition to the foregoing, Purchaser, Parent and Seller agree as follows:

(a) Further Action by Seller. At any time and from time to time, at or after the Closing, upon request of Purchaser, Seller shall do, execute, acknowledge and deliver or shall

cause to be done, executed, acknowledged and delivered all such further acts, deeds, assignments, transfers, conveyances, powers of attorney and assurances as may reasonably be required to evidence, vest in and confirm to Purchaser full and complete title to, possession of, and the right to use and enjoy, the Assets.

(b) Further Action by Purchaser and Parent. At any time and from time to time, at or after the Closing, upon request of Seller, each of Purchaser and Parent shall do, execute, acknowledge and deliver or shall cause to be done, executed, acknowledged and delivered all such further acts and assurances as may reasonably be required to better assure and confirm to Seller the assumption by Purchaser of the obligations to render performance that are to be assumed by Purchaser pursuant to this Agreement.

ARTICLE XII ONGOING EXPENSES

The parties agree to continue making the payments as agreed by the parties, including, but not limited to, those set forth on Schedule 12.

ARTICLE XIII SURVIVAL AND INDEMNIFICATION

13.1 Survival of Covenants, Agreements, Representations and Warranties.

(a) Covenants and Agreements. All covenants and agreements made hereunder or pursuant hereto or in connection with the transactions contemplated hereby shall survive the Closing and shall continue in full force and effect thereafter according to their terms.

(b) Representations and Warranties. All representations and warranties contained herein shall survive the Closing and shall continue in full force and effect thereafter for a period of one year following the Closing, except that (a) the representations and warranties contained in Section 4.17 (Taxes) hereof shall survive until the earlier of (i) the expiration of the applicable periods (including any extensions) of the respective statutes of limitation applicable to the payment of the taxes to which such representations and warranties relate without an assertion of a deficiency in respect thereof by the applicable taxing authority or (ii) the completion of the final audit and determinations by the applicable taxing authority and final disposition of any deficiency resulting therefrom; and (b) the representations and warranties contained in Sections 4.1 and 5.1 (Due Organization and Qualification); Sections 4.2 and 5.2 (Corporate Power and Authority); Section 4.4 (Personal Property; Title to Property) and Section 4.18 (Environmental Laws and Regulations) hereof shall survive until one day after the expiration of the applicable periods (including any extensions) of the respective statutes of limitation.

(c) Claims Made Prior to Expiration. Notwithstanding the foregoing survival periods set forth in this Section 13.1, the termination of a survival period shall not affect the rights of an Indemnified Party in respect of any claim made by such party with specificity, in good faith and in writing to the Indemnifying Party in accordance with Section 13.5 and Section 14.9 hereof prior to the expiration of the applicable survival period.

13.2 Purchaser's Losses. Seller and PFSweb, jointly and severally, agree to indemnify and hold harmless Purchaser, Parent, their Affiliates and their directors, officers, employees, representatives, agents and attorneys from, against, for and in respect of any and all damages (including, without limitation, amounts paid in settlement with Seller's consent, which may not be unreasonably withheld), penalties, fines, interest and monetary sanctions, losses, obligations, liabilities, claims, deficiencies, costs and expenses, including, without limitation, reasonable attorneys' fees and other costs and expenses incident to any suit, action, investigation, claim or proceeding (hereinafter referred to collectively as "Purchaser's Losses") suffered, sustained, incurred or required to be paid by any of them by reason of (i) any representation or warranty made by Seller or PFSweb in or pursuant to this Agreement being untrue or incorrect in any respect; (ii) any failure by Seller or PFSweb to observe or perform its covenants and agreements set forth in this Agreement; and (iii) any failure by Seller or PFSweb to satisfy and discharge any liability or obligation not expressly assumed by Purchaser or Parent pursuant to this Agreement. Furthermore, Seller agrees that in the event that the representation made by the Seller in the last sentence of Section 4.4(b) is found to be inaccurate, in addition to all other remedies available to Purchaser and its Affiliates (including, without limitation, seeking such damages it can show it has sustained by reason of such breach), the Seller will execute and deliver all other assignments, endorsements and instruments of transfer as shall be necessary or appropriate to vest in Purchaser title to all of the assets necessary to make such representation accurate.

13.3 Employee Compensation and Benefits. Seller agrees to indemnify and hold Purchaser, and its directors, officers, employees, representatives, agents and attorneys harmless from and against any and all claims made by employees or persons claiming to be employees of Seller for wages, salaries, bonuses, pension, workmen's compensation, medical insurance, disability, vacation, severance, pay in lieu of notice, sick benefits or other compensation or benefit arrangements to the extent the same are based on employment service rendered to Seller prior to the Closing Date or injury or sickness occurring prior to the Closing Date and are not Assumed Liabilities or Assumed Employee Expenses (collectively, "Employee Claims"). Employee Claims do not include insurance premium adjustments, increases or other charges incurred by Purchaser or Parent in connection with providing health care or other insurance benefits following the Closing Date for Transferring Employees as the result of any pre-existing condition of any such Transferring Employee.

13.4 Seller's Losses. Purchaser and Parent, jointly and severally, agree to indemnify and hold harmless the Seller, PFSweb, their Affiliates and their directors, officers, employees, representatives, agents and attorneys from, against, for and in respect of any and all damages (including, without limitation, amounts paid in settlement with Purchaser's consent, which may not be unreasonably withheld), penalties, fines, interest and monetary sanctions, losses, obligations, liabilities, claims, deficiencies, costs and expenses, including, without limitation, reasonable attorneys' fees and other costs and expenses incident to any suit, action, investigation, claim or proceeding (hereinafter referred to collectively as "Seller's Losses"; Seller's Losses or Purchaser's Losses are sometimes referred to herein as "Losses") suffered, sustained, incurred or required to be paid by any of them by reason of (i) any representation or warranty made by Purchaser or Parent in or pursuant to this Agreement being untrue or incorrect in any respect; (ii) any failure by Purchaser or Parent to observe or perform its covenants and agreements set

forth in this Agreement; or (iii) any failure by Purchaser or Parent to satisfy and discharge any Assumed Liability.

13.5 Notice of Loss. Except to the extent set forth in the next sentence, a party to this Agreement shall not have any liability under the indemnity provisions of this Agreement with respect to a particular matter unless a notice (the "Indemnification Notice") setting forth in reasonable detail the breach which is asserted has been given to the Indemnifying Party (as hereafter defined). Notwithstanding the preceding sentence, failure of the Indemnified Party to give notice hereunder shall not release the Indemnifying Party from its obligations under this Article XIII, except to the extent the Indemnifying Party is actually prejudiced by such failure to give notice. With respect to Purchaser's Losses and Employee Claims, Seller shall be the "Indemnifying Party" and Purchaser and the other Persons described in Section 13.2 shall be the "Indemnified Party." With respect to Seller's Losses, Purchaser, shall be the "Indemnifying Party" and Seller and the other Persons described in Section 13.4 shall be the "Indemnified Party."

13.6 Right to Defend. Upon receipt of notice of any suit, action, investigation, claim or proceeding for which indemnification might be claimed by an Indemnified Party, the Indemnifying Party shall be entitled to defend, contest or otherwise protect against such suit, action, investigation, claim or proceeding at its own cost and expense, and the Indemnified Party must cooperate in any such defense or other action, including the assertion of any counterclaim or crossclaim. The Indemnified Party shall have the right, but not the obligation, to participate at its own expense in a defense thereof by counsel of its own choosing, but the Indemnifying Party shall be entitled to control the defense unless the Indemnified Party has relieved the Indemnifying Party from liability with respect to the particular matter or the Indemnifying Party fails to assume defense of the matter. If the Indemnifying Party shall fail to defend, contest or otherwise protect in a timely manner against any such suit, action, investigation, claim or proceeding, the Indemnified Party shall have the right, but not the obligation, to defend, contest or otherwise protect against the same and make any compromise or settlement thereof and recover the entire cost thereof from the Indemnifying Party including reasonable attorneys' fees, disbursements and all amounts paid as a result of such suit, action, investigation, claim or proceeding or the compromise or settlement thereof; provided, however, that the Indemnified Party must send a written notice to the Indemnifying Party of any such proposed settlement or compromise, which settlement or compromise the Indemnifying Party may reject, in its reasonable judgment, within 30 days of its receipt of such written notice. A failure by the Indemnifying Party to reject such settlement or compromise within such thirty (30) day period shall be deemed an acceptance of such settlement or compromise. The Indemnified Party shall have the right to effect a settlement or compromise over the objection of the Indemnifying Party; provided, that if (i) the Indemnifying Party is contesting such claim in good faith or (ii) the Indemnifying Party has assumed the defense from the Indemnified Party and the Indemnifying Party has a net worth in excess of the amount being sought, the Indemnified Party waives any right to indemnity therefor. If the Indemnifying Party undertakes the defense of such matters, the Indemnified Party shall not, so long as the Indemnifying Party does not abandon the defense thereof, be entitled to recover from the Indemnifying Party any legal or other expenses subsequently incurred by the Indemnified Party in connection with the defense thereof other than the reasonable costs of investigation undertaken by the Indemnified Party with the prior written consent of the

Indemnifying Party and other than such amounts incurred where a conflict of interest is reasonably determined to exist by the Indemnified Party such that more than one legal counsel is reasonably needed.

13.7 Cooperation. Each of Parent, Purchaser and the Seller and each of their affiliates, successors and assigns shall cooperate with each other in the defense of any suit, action, investigation, proceeding or claim by a third party and, during normal business hours, shall afford each other access to their books and records and employees relating to such suit, action, investigation, proceeding or claim and shall furnish each other all such further information that they have the right and power to furnish as may reasonably be necessary to defend such suit, action, investigation, proceeding or claim, including, without limitation, reports, studies, correspondence and other documentation relating to Environmental Protection Agency, Occupational Safety and Health Administration, and Equal Employment Opportunity Commission matters.

13.8 Satisfaction of Amounts Owed. Until the Deferred Payments have been made pursuant to Section 3.2, if Seller is determined to owe an indemnification amount pursuant to the procedures set forth in this Article XIII, then the amount due the Indemnified Party hereunder may, in addition to and not in lieu of any other rights or remedies, be recovered by (i) offsetting such amount against the Deferred Payments or (ii) offsetting such amount against amounts due under the Transition Agreement.

13.9 Right to Dispute.

(a) If the Indemnifying Party notifies the Indemnified Party that it does not dispute the claim described in such Indemnification Notice or fails to notify the Indemnified Party within ten (10) business days of receiving the Indemnification Notice pursuant to Section 13.5 (the "Objection Period") that the Indemnifying Party disputes the claim described in such Indemnification Notice, the loss in the amount specified in such Indemnification Notice will be conclusively deemed a liability of the Indemnifying Party under Section 13.2, 13.3 or 13.4, as the case may be, and the Indemnifying Party shall pay the amount of such loss to the Indemnified Party on demand. If the Indemnifying Party has disputed its liability with respect to such claim within the Objection Period, the Indemnifying Party and the Indemnified Party will proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations within fifteen (15) days of the Indemnifying Party disputing the claim, such dispute shall be resolved by arbitration in accordance with Section 13.9(b).

(b) Any dispute submitted to arbitration pursuant to this Section 13.9 shall be finally and conclusively determined by arbitration conducted pursuant to the commercial arbitration rules of the American Arbitration Association in Dallas, Texas. Any decision made by the arbitrators shall be final, binding and conclusive on the Indemnified Party and the Indemnifying Party and entitled to be enforced to the fullest extent permitted by law and entered in any court of competent jurisdiction. The expenses of each party to any arbitration, including but not limited to such party's attorneys' fees, if any, and the expenses and fees of the arbitrators shall be recoverable or borne as determined by the arbitrators.

(c) In the event Seller disputes any claim for indemnification as provided in paragraph (a) above, Purchaser and Parent may not exercise their right of offset set forth herein (including Sections 3.4 and 13.8) as to such claim until such claim has been finally determined in accordance with the arbitration provisions of the preceding paragraph (b); provided, however, Purchaser and Parent shall not be obligated to pay the Deferred Payments to Seller or pay amounts due under the Transition Agreement to the extent of such disputed amounts, but shall instead pay such disputed amounts into the Joint Deposit Account (as such term is defined in the Transition Agreement) pursuant to the terms of the Transition Agreement, with such amounts to be paid out upon resolution of the dispute as provided herein or in the Transition Agreement, as applicable.

13.10 Limitations on Losses.

(a) In case any event shall occur that would otherwise entitle any party to assert a claim for indemnification hereunder, no Losses shall be deemed to have been sustained by such party to the extent of (i) any actual tax benefit or savings realized by such party with respect thereto (net of any tax cost attributable to the receipt of any indemnification payment hereunder) or (ii) any proceeds (net of deductibles, taxes and collection costs) received by such party from any insurance policies maintained by or on behalf of such party with respect to losses (net of any increase in insurance premiums attributable to such recovery). The parties agree to submit a claim under any applicable insurance policies prior to or promptly following making a request for indemnification hereunder.

(b) The sum of all Losses incurred by any party seeking indemnification must exceed, on a cumulative basis, Twenty-Five Thousand Dollars (\$25,000) before such party shall be entitled to indemnification hereunder; provided, however, once such cumulative Losses exceed Twenty-Five Thousand Dollars (\$25,000), such party shall be entitled to indemnification for all Losses.

(c) Except for the representations and warranties expressly set forth herein and the Schedules hereto, no party hereto makes any representation or warranty of any kind or nature regarding the Assets, the Business or any other matter, fact or circumstance, and any and all other warranties, whether express or implied, including warranties of merchantability or fitness for a particular purpose, are hereby expressly disclaimed. Parent and the Purchaser acknowledge that they (and their authorized agents and representatives) have conducted their own investigation and due diligence review of the Assets and the Business and have reviewed the operations, facilities, books and records of the Seller and have met with and interviewed such employees and other personnel as they deemed appropriate.

(d) The indemnification obligations of Seller, Parent and Purchaser hereunder shall, except in the case of fraud, intentional breach, intentional misconduct, or intentional misrepresentation, constitute the sole and exclusive remedies of the parties, respectively, for the recovery of money damages with respect to the matters for which indemnification is provided hereunder; provided, that the foregoing shall not be construed as limiting in any way whatsoever any remedy other than for the recovery of money damages to which any party may be entitled.

ARTICLE XIV
MISCELLANEOUS

14.1 Expenses. Except as otherwise expressly provided herein or on Schedule 14.1, the Seller, the Parent and the Purchaser shall each pay its own expenses in connection with the preparation of this Agreement, and the consummation of the transactions contemplated hereby, including, without limitation, fees of their own counsel, auditors and other experts, whether or not such transactions be consummated.

14.2 Entire Agreement. This Agreement (including the exhibits and schedules hereto) and the Additional Documents constitute the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties hereto with respect to the subject matter thereof, including, but not limited to the Letter of Intent between the Parent and the Seller dated March 21, 2001, and no party shall be liable or bound to the other in any manner by any representations or warranties not set forth herein. Notwithstanding the foregoing, this Agreement and the Additional Documents shall not supersede, replace, amend or modify any of the terms or provisions of the following agreements dated December 7, 1999 to which Parent and PFSweb are a party: Master Separation Agreement, Tax Indemnification and Allocation Agreement, and Initial Public Offering and Distribution Agreement (each as supplemented by the Agreement dated April 6, 2001).

14.3 Publicity. Except as otherwise required by law, no party hereto shall issue any press release or make any public statement, in either case relating to this Agreement or the matters contained herein, without obtaining the prior written approval of the other parties hereto to the content and manner of presentation and publication thereof, which consent shall not be unreasonably withheld or delayed. Each party hereby agrees that if the other party determines in its good faith opinion that it must make a disclosure regarding this transaction, including, but not limited to, the filing of copies of agreements or other documents with the Securities and Exchange Commission, in order to comply with applicable securities laws, that such party may make such disclosure and such party's only obligation shall be to provide a copy of such proposed disclosure to the other party prior to making such disclosure publicly and to seek confidential treatment of the portions of such agreements or documents which the other party reasonably deems appropriate.

14.4 Successors and Assigns. No party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other parties; provided, however, that the Purchaser may (i) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (ii) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases the Purchaser nonetheless shall remain responsible for the performance of all of its obligations hereunder). Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties and their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of such agreements.

14.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original and all of which shall constitute the same instrument.

14.6 Headings. The headings of the paragraphs and subparagraphs of this Agreement are inserted for convenience of reference only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

14.7 Use of Certain Terms. As used in this Agreement, the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular paragraph, subparagraph or other subdivision.

14.8 Modification and Waiver. Any of the terms or conditions of this Agreement may be waived in writing at any time by the party which is entitled to the benefits thereof, and this Agreement may be modified or amended by a written instrument executed by Parent, Purchaser and Seller. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by all of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

14.9 Notices. All notices of communication required or permitted hereunder shall be in writing and may be given by (a) depositing the same in United States mail, addressed to the party to be notified, postage prepaid and registered or certified with return receipt requested, (b) delivering the same in person to an officer or agent of such party, (c) sending by a nationally recognized overnight delivery service or (d) telecopying the same with electronic confirmation of receipt.

(i) If to Seller and/or PFSweb:

PFSweb, Inc.
500 North Central Expressway
Plano, TX 75074
Attention: Mark Layton
Telecopy No.: 972-881-0145

With copies to:

Wolff & Samson, P.A.
5 Becker Farm Road
Roseland, New Jersey 07068
Attention: Morris Bienenfeld, Esq.
Telecopy No.: (973) 740-1407

(ii) If to Purchaser and/or to Parent:

c/o Daisytek International
1025 Central Expressway South, Suite 200
Allen, Texas 75013
Attention: Mr. John D. Kearney, Sr.
Telecopy Number: (972) 424-4604

With copies to:

Munsch Hardt Kopf & Harr, P.C.
1445 Ross Avenue, 40th Floor
Dallas, Texas 75202
Attention: A. Michael Hainsfurther, Esq.
Telecopy Number: (214) 855-7584

or at such other address or counsel as any party hereto shall specify pursuant to this Section 14.9 from time to time.

14.10 GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF.

14.11 Time. Time is of the essence with respect to this Agreement.

14.12 Reformation and Severability. In case any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as to most nearly retain the intent of the parties, and if such modification is not possible, such provision shall be severed from this Agreement, and in either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

14.13 Remedies Cumulative. No right, remedy or election given by any term of this Agreement shall be deemed exclusive but each shall be cumulative with all other rights, remedies and elections available at law or in equity.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be signed in counterparts all as of the date first above written.

SELLER:

PRIORITY FULFILLMENT SERVICES, INC.

Name: -----

Title: -----

PFSWEB:

PFSWEB, INC.

Name: -----

Title: -----

PURCHASER:

DAISYTEK, INC.

Name: -----

Title: -----

PARENT:

DAISYTEK INTERNATIONAL CORPORATION

Name: -----

Title: -----

TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT (the "Agreement") is entered into as of May 25, 2001 (the "Effective Date") by and between PFSWEB, INC., a corporation organized under the laws of the State of Delaware, and DAISYTEK INTERNATIONAL CORPORATION, a corporation organized under the laws of the State of Delaware.

WHEREAS, prior to the date hereof, PFSweb, Inc. and certain of its subsidiaries, including Priority Fulfillment Services, Inc. (collectively, "PFS"), provided certain warehousing, distribution and fulfillment services (the "Fulfillment Services") and certain information technology services that include transaction management, order processing, and communications services (the "IT Services") to Daisytek International Corporation and certain of its subsidiaries (collectively, "Daisytek"); and

WHEREAS, concurrently herewith the Parties are consummating the transactions contemplated by that certain Asset Purchase Agreement (the "Asset Purchase Agreement") by and between Daisytek and PFS, including, without limitation, the termination of the agreements specified in the Termination Agreement (as such term is defined in the Asset Purchase Agreement); and

WHEREAS, on and after the Effective Date, Daisytek will assume responsibility for the Fulfillment Services and PFS will provide the necessary support to Daisytek in order to facilitate an orderly and complete transition of the Fulfillment Services (the "Fulfillment Transition Services"); and

WHEREAS, on or after the Effective Date, PFS will continue to provide to Daisytek the IT Services as well as those services, functions and responsibilities necessary to facilitate an orderly and complete transition of the IT Services to Daisytek (the "IT Transition Services");

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. PROVISION OF DESIGNATED SERVICES

1.1. DESIGNATED SERVICES. Upon the terms and subject to the conditions of this Agreement, during the term of this Agreement, PFS agrees to provide to Daisytek, and Daisytek agrees to purchase from PFS, the Designated Services. As used herein, the term Designated Services means: (i) the Fulfillment Transition Services, the IT Services and the IT Transition Services, including, without limitation, the services described in the Statement of Work set forth as Exhibit-SOW; and (ii) any services, functions, or responsibilities not specifically described in this Agreement, but that are currently performed by PFS and which are required for the proper performance and delivery of the Designated Services.

1.2. IT TRANSITION SERVICES. Daisytek has the primary responsibility to manage, coordinate, supervise and effectuate the transition of the IT Services to Daisytek. PFS shall facilitate and assist Daisytek to transition the IT Services to Daisytek on or before a date (the "Cutover Date") to be designated by Daisytek through written notice to PFS at least thirty (30) days prior to such date. Except as otherwise included within the IT Transition Services, PFS shall not provide the IT Services after the Cutover Date. PFS will use its best efforts to perform the IT Services and IT Transition Services without causing a material disruption to Daisytek's business or operations. Until the completion of the transition of each applicable IT Service, each PFS individual responsible for the services provided by PFS to transition that function will review with Daisytek the status of the IT Service for which that individual is responsible as often as may be reasonably requested by Daisytek. In connection with the transition of the IT Services, PFS shall provide, in writing, on or before thirty (30) days from the Effective Date to the extent available, applicable requirements, standards, policies, operating procedures and other documentation relating to the affected execution environment of the IT Services. Daisytek acknowledges and agrees that PFS makes no representations or warranties with respect to the accuracy, completeness, or usefulness of any such information. Following the expiration of this Agreement, PFS shall reasonably cooperate with Daisytek by answering all reasonable and pertinent verbal or written questions from Daisytek regarding the IT Services on an "as needed" basis as agreed

upon by Daisytek and PFS and deliver to Daisytek any remaining Daisytek-owned reports and documentation still in PFS' possession.

In connection with the transition of the IT Services, Daisytek and PFS covenant and agree to jointly identify any third-party software necessary for the performance of the IT Services (the "Third-Party Software"). Daisytek and PFS will cooperate with one another in obtaining the necessary access to or licensing of the Third-Party Software, as more particularly described in Section 1.12.

PFS acknowledges and agrees that it shall have an absolute and unconditional obligation to provide Daisytek with the Designated Services in accordance with the terms of this Agreement and Daisytek acknowledges and agrees that it has an absolute and unconditional obligation to pay the Monthly Fees and other amounts payable by it hereunder, in each case, subject however, to the offset right of Daisytek set forth in Section 1.6(A) and 1.8 below. Except for such offset rights, Daisytek shall have no right to offset any Monthly Fee or Variable Charge, and in the event Daisytek shall fail to pay any Monthly Fee or Variable Charge hereunder on any date when due or shall fail to pay any Deferred Payment payable under the Asset Purchase Agreement on any date when due (subject to the right of offset set forth in Section 1.8 hereof or Section 13.8 therein and/or the resolution of a dispute with respect to Daisytek's right to offset the Monthly Fee as set forth in Section 1.6), PFS shall have the right, in addition to and not in lieu of any other available rights or remedies, after providing five (5) days written notice to Daisytek to cease providing any or all of the Designated Services. Notwithstanding the foregoing, in the event of a dispute with respect to Daisytek's right to offset the Monthly Fee, Variable Charge, or any Deferred Payment, provided that Daisytek has paid the Monthly Fee, Variable Charge, or the Deferred Payment into the Joint Deposit Account (as such term is defined below) as described in Section 1.6(C), PFS will continue to provide the Designated Services pending the resolution of the dispute in accordance with Section 1.6(B) and/or Section 3.12.

1.3. COST AND EXPENSES. Except as set forth on Exhibit-SOW, PFS shall, at its expense, provide all personnel, equipment, facilities and systems as may be necessary for it to provide the Designated Services hereunder. PFS shall be solely responsible for the payment of all compensation and benefits, including applicable payroll taxes, to all of its employees performing the Designated Services.

1.4. AUTHORITY. In performing the Designated Services, PFS shall have no authority to make any representation, warranty, commitment or obligation on behalf of Daisytek, nor shall PFS be deemed an agent or representative of Daisytek.

1.5. SERVICE LEVELS. PFS agrees to provide the Designated Services in accordance with the service levels set forth in Exhibit-SLA (the "Service Levels").

1.6. SERVICE LEVEL PENALTIES. A. In the event PFS shall be in breach of Section 1.5 hereof and the quality of the Designated Services is not in accordance with the Service Levels in any month during the term hereof (a "Service Level Breach"), Daisytek and PFS agree that, as the sole and exclusive remedy and liquidated damages therefor, and in lieu of any and all other rights or remedies available at law or in equity or otherwise, Daisytek will be entitled to offset the amount of the applicable corresponding service level penalties set forth in Exhibit-SLA (the "Service Level Penalties"), from (i) the applicable Monthly Fee and any Variable Charges due to PFS under this Agreement for such month and (ii) the applicable Deferred Payment due to PFS under the Asset Purchase Agreement for such month. Daisytek and PFS agree that the maximum liability of PFS for Service Level Breaches occurring in any month during the term hereof and the maximum amount Daisytek may offset for the corresponding Service Level Penalties arising from such Service Level Breaches, on a monthly basis, is in the aggregate, the sum of (i) the Monthly Fee for such month, (ii) any Variable Charges occurring in such month, and (iii) the applicable Deferred Payment or other amounts due to PFS under the Asset Purchase Agreement for such month. Other than with respect to liability resulting from the intentional misconduct of PFS, Daisytek agrees that the exercise of such right of offset shall be deemed to cure any such Service Level Breach and PFS shall have no further liability or obligation with respect thereto, whether direct, indirect, liquidated or contingent, including without limitation, any claim for lost profits. Except for liability resulting from the intentional misconduct of PFS or the right of offset set forth herein, PFS shall have no liability for Service Level Breaches or any loss of time, inconvenience, loss of use of any product or equipment or any incidental, indirect, punitive, special or consequential damages of any kind or nature, including lost profits, arising therefrom, even if PFS has been advised, knew or should have known of the possibility thereof.

B. Daisytek and PFS agree to use the following procedure with respect to Service Level Breaches: Attached hereto as Exhibit 1.6 is a list setting forth for each of Daisytek and PFS the names and phone numbers (including extensions, cell phones and pagers) of Daisytek personnel and PFS personnel (the "Daisytek Representatives" and the "PFS Representatives", respectively) who are authorized to deliver or receive all notices regarding Service Level Breaches and all matters related thereto. Notice shall be deemed to be given upon actual receipt (by telephone for oral notice and by fax for written notice) by one party's Representative of notice from the other party's Representative. Each party will use its best efforts to continue to attempt notice delivery until receipt is confirmed. Each party agrees to use its best efforts to immediately notify (by telephone) the other party (i) of the occurrence of any Service Level Breach and (ii) if it has reason to believe that a Service Level Breach is likely to occur.

Within 24 hours of the occurrence of a Level 1 Service Level Breach pursuant to which Daisytek determines that a Service Level Penalty is due, a Daisytek Representative will deliver to a PFS Representative written notice setting forth the identity of the Service Level Breach and the calculation of the Service Level Penalty (the "Notice of Offset"). If a PFS Representative does not, within ten (10) days following its receipt of a Notice of Offset (the "Objection Period"), deliver to a Daisytek Representative a written response specifying its objections to any Service Level Penalty specified therein (the "Notice of Objection"), then upon the expiration of the Objection Period, Daisytek may offset the amount of any Service Level Penalty set forth in the Notice of Offset. In the event PFS has delivered to Daisytek a Notice of Objection within the Objection Period, then Daisytek will designate its chief executive officer and PFS will designate its chief executive officer whose task it will be to meet for the purpose of endeavoring to resolve the dispute set forth in the Notice of Objection. The designated executives will meet as often as Daisytek and PFS reasonably deem necessary in order to gather and furnish to the other all information with respect to the matter in issue which the Daisytek and PFS believe to be appropriate and germane in connection with its resolution. Such executives will discuss the dispute regarding the Notice of Objection and will negotiate in good faith in an effort to resolve such dispute without the necessity of any formal proceeding relating thereto. The specific format for such discussions will be left to the discretion of the designated executives but may include the preparation of agreed upon statements of fact or written statements of position furnished to the other Party. No formal proceedings for the resolution of the dispute regarding the Notice of Objection under Section 3.12 hereof may be commenced until the earlier to occur of (a) a good faith conclusion by the designated executives that amicable resolution through continued negotiation of the matter in issue does not appear likely or (b) the 15th day after the initial request to negotiate the dispute regarding the Notice of Objection. Upon the occurrence of either the event described in (a) or (b) in the preceding sentence, Daisytek and PFS will submit the dispute regarding the Notice of Objection to arbitration in accordance with Section 3.12 hereof.

C. In the event PFS delivers a Notice of Objection in a timely manner, Daisytek will pay the disputed portion of the Monthly Fee and any Variable Charges due for such month, as well as any other disputed amounts sought to be offset, into a deposit account established with such bank or other institution as may be mutually agreed upon by Daisytek and PFS (the "Joint Deposit Account"). Any such Joint Deposit Account will require the signatures of an authorized officer of each of Daisytek and PFS for withdrawals. Such Joint Deposit Account will also provide for the payment of interest on the amount deposited therein. The Parties agree that the party prevailing in the resolution of the dispute will be entitled to recover the interest earned on the deposited amounts, plus an amount which, when added to the interest earned, will total eighteen percent (18%) of the amount deposited into the Joint Deposit Account.

D. In the event a party hereto is taxed upon the interest earned in such Joint Deposit Account, but does not receive such interest from the Joint Deposit Account, the party receiving such interest shall pay on demand to the party who paid the income tax, the amount of the income taxes actually paid by such party on such interest.

1.7. SYSTEM SEPARATION. Daisytek and PFS will continue to use their best efforts to complete the system separation project (the "System Separation Project") more particularly described in Exhibit-SSP. In addition, Daisytek and PFS covenant and agree to use their respective best efforts to complete the responsibilities assigned to them as set forth in the time and events schedule attached as Schedule 2. In addition, Daisytek will develop a plan

that will specify the tasks to be performed by the parties in order to complete the System Separation Project. PFS will review such plan and use its best efforts to identify any items or omissions, at the same level of detail as the plan provided by Daisytek, that interfere with or are likely to interfere with the completion of the System Separation Project. The terms and provisions of the System Separation Project, including the responsibilities and costs thereof, are set forth in Exhibit-SSP and are independent of, and unrelated to, the terms and provisions governing the Designated Services. Any amounts payable by Daisytek pursuant to Exhibit SSP are not subject to the right of offset hereunder.

1.8. FEES.

A. In consideration of the performance of the Designated Services, Daisytek shall pay to PFS (i) a monthly fee as set forth on Exhibit-SOW hereto (the "Monthly Fee") and (ii) such other fees, amounts and compensation relating to Additional Services as mutually agreed, as set forth on Exhibit-SOW hereto (the "Variable Charges"). All Monthly Fees shall be payable no later than the last business day of the month following the month in which the Designated Services were performed (e.g., the Monthly Fee for June shall be due and payable on July 31) (the "Invoice Due Date"); except that for the last month of the term hereof, the Invoice Due Date shall be the last day of the term. The Monthly Fee for June shall include the period of time between the date hereof and June 1. PFS shall provide Daisytek with invoices on a monthly basis on or before the 15th day of each calendar month for all Variable Charges payable by Daisytek and arising in connection with the Designated Services performed by PFS during the immediately prior calendar month. Subject to Daisytek's right of offset set forth in Section 1.6 and PFS' delivery to Daisytek of the Guaranteed Payments Certificate described in subsection (c) below, Daisytek shall (i) pay all undisputed amounts of the Monthly Fee on the Invoice Due Date and (ii) pay any undisputed Variable Charges on the Invoice Due Date, provided such Invoice Due Date is at least fifteen (15) days from the date of Daisytek's receipt of an invoice for such Variable Charges. Any payment by Daisytek is without prejudice of its right to contest the accuracy of the number of hours or number of named users giving rise to the Variable Charges on such invoice. Any Monthly Fee which is not paid or disputed within ten (10) days of the Invoice Due Date shall accrue interest until paid at the lower of 1.5% per month or the highest legal rate. Any Variable Charge which is not paid or disputed within 10 days of the Invoice Due Date shall accrue interest until paid at the lower of .75% per month or the highest legal rate. The amounts to be paid by Daisytek to PFS herein do not include any domestic or foreign, federal, state, local, municipal or other governmental taxes, duties, levies, fees, withholdings, excises or tariffs, arising as a result of or in connection with the transactions contemplated under this Agreement, including, without limitation, any state or local sales or use taxes or any value added tax or business tax now or hereafter imposed on the provision of Designated Services under this Agreement. Daisytek and PFS shall cooperate to segregate the Monthly Fees and Variable Charges into the following separate payment streams: (a) those for taxable services; (b) those for nontaxable services; (c) those for which a sales, use or other similar tax has already been paid; and (d) those for which PFS functions merely as a paying agent for Daisytek in receiving goods, supplies or services (including leasing and licensing arrangements) that otherwise are nontaxable or have previously been subject to tax. In addition, each of Daisytek and PFS shall reasonably cooperate with the other to more accurately determine a Party's tax liability and to minimize such liability, to the extent legally permissible. Each of Daisytek and PFS shall provide and make available to the other any resale certificates, information regarding out-of-state sales or use of equipment, materials or services, and any other exemption certificates or information requested by a Party. With respect to the portion of the Designated Services the Parties determine are taxable, PFS will pay the applicable taxes and on or before the date PFS is required to pay such taxes Daisytek will reimburse PFS for one-half of the amount of taxes paid by PFS on such portion of the Designated Services. In the event that subsequent to PFS' payment of the taxes described above, an audit by the applicable taxing authority conclusively determines additional taxes are owed by PFS for which Daisytek has a payment obligation as described above, PFS will notify Daisytek of such amount of additional taxes and on or before the date PFS is required to pay such taxes Daisytek will reimburse PFS for one-half of the amount of additional taxes subsequently paid by PFS.

If PFS is determined to owe an indemnification amount pursuant to the procedures set forth in Article XIII of the Asset Purchase Agreement, Daisytek may offset such amount against the Monthly Fees and Variable Charges payable hereunder.

B. Bonus Payments. Daisytek shall have the right, in its sole and absolute discretion, to pay bonuses to the individuals set forth on Exhibit-Bonus (up to the amounts specified therein), subject to such conditions precedent as Daisytek shall determine in its sole discretion.

Daisytek will be responsible for, and will indemnify PFS against and in respect of, all payroll taxes and other governmental charges and filings applicable to such bonus payments. The foregoing bonuses shall not be deemed PFS wages or compensation for such persons. Except for the foregoing or as PFS may otherwise consent, Daisytek will not pay any other bonuses or other remuneration to any PFS employee in connection with the Designated Services.

C. Guaranteed Payments Certificate. With respect to the Guaranteed Agreements (as such term is defined in the Asset Purchase Agreement), on or before each Invoice Due Date, PFS will also deliver to Daisytek, a certificate executed by a duly authorized officer of PFS, certifying that all amounts due by PFS under the Guaranteed Agreements have been paid and that such Guaranteed Agreements are not otherwise in default (the "Guaranteed Payments Certificate").

1.9. STANDARD OF SERVICE. PFS agrees that it will use its best efforts to perform the Designated Services in a professional manner and in the same or similar manner, scope, quality and nature as provided during the 12 month period prior to the date hereof. Notwithstanding the foregoing service level standard, with respect to the Designated Services, PFS agrees to comply with the notice and the requirements related to the resolution of Level 1 faults specified in Exhibit SLA.

1.10. AUTHORIZED REPRESENTATIVE; NOTIFICATION OF PROBLEMS. Daisytek shall provide PFS with all information, instructions and authorizations as PFS may require in order to perform the Designated Services hereunder. All information, instructions and authorizations by Daisytek to PFS shall comply with all applicable federal, state and local laws, rules and regulations, and PFS has no responsibility to confirm or verify the adequacy, accuracy or validity thereof. In performing the Designated Services hereunder (and except as otherwise set forth above regarding Service Level Breaches), PFS shall act in accordance with, and shall be entitled to rely upon, all written, facsimile and electronic information, instructions and authorizations provided by an Authorized Representative of Daisytek and received by a PFS Representative. As used herein, the term Authorized Representative means Bill Justus, Bill Bergeron, Mike Bishoff or any other Daisytek representative designated by Jim Powell and set forth, in a written notice to a PFS Representative. Daisytek and PFS acknowledge the importance of promptly sharing and working together to resolve performance issues relating to the Designated Services. Accordingly, Daisytek and PFS shall provide written notice to the other party of any acts or omissions (whether by Daisytek, PFS or any third party), or any other events that interfere with, or are likely to interfere with such party's performance of its obligations under this Agreement. Each party shall use all commercially reasonable efforts to provide such written notice when such party first knew or should have known of such acts, omissions, failures or other events, but in any case no later than ten (10) days thereafter. Such written notice shall describe in reasonable detail such acts, omissions, failures or other events and the manner in which the foregoing may affect such party's performance.

1.11. INTELLECTUAL PROPERTY RIGHTS. Except to the extent expressly included as part of the Fulfillment Assets being purchased by Daisytek pursuant to the terms of the Asset Purchase Agreement, and to the extent used in the performance of or related to the Designated Services, and/or the Fulfillment Services Daisytek and PFS will jointly own, and to the extent necessary, each of PFS and Daisytek hereby assigns to the other an undivided interest in all of the right, title and interest, including without limitation all patent rights (including rights to apply for and receive patents of any type, patent application, and patents), copyrights, trade secret rights, database protection rights, and other intellectual property and related industrial, artistic, and other intellectual property rights of any and every nature throughout the world, as well as the benefits of waivers of moral rights and the like, ("Intellectual Property Rights"), that it now possesses or is entitled to possess or receive, in or to the following: source code and object code version of any application programs, operating system software, computer software languages, utilities, other computer programs (i.e. any set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result), processes, systems, interfaces, and documentation and supporting materials related thereto, in whatever form or media, used in the performance of or related to the Designated Services and/or the Fulfillment Services, including the tangible media upon which such applications programs, operating system software, computer software languages, utilities or other computer programs, documentation and supporting materials related thereto are recorded or printed,

together with all corrections, improvements, updates and releases thereof (collectively, the "Existing Materials"). However, notwithstanding the foregoing, PFS hereby without representation or warranty, assigns to Daisytek, all of its right, title and interest, if any, in and to any rights or licenses PFS has in any trademarks, service marks, trade dress, trade names, domain names or other indicia of origin, addresses or identifications and all goodwill associated therewith (the "Trademark Rights") in or associated with, or related to [DAISYNET, SOLONET, VIRTUAL DEMAND, SOLO]. Subject to the last sentence of this Section, each of Daisytek and PFS, and their respective successors and assigns, will have, with respect to each other, unrestricted rights in perpetuity to exploit the Existing Materials, including the unlimited and unrestricted right to copy, modify, enhance, use, sell, assign, lease, license and commercially exploit the Existing Materials without an obligation to account to or pay the other Party. Each of PFS and Daisytek waive, on behalf of itself and its successors and assigns, all rights of accounting for profits. Each of PFS and Daisytek further grant to the other a non-exclusive, fully paid up, irrevocable, non-terminable, royalty-free, fully transferable, non-exclusive license to all of the Intellectual Property Rights in or relating to the Existing Materials that it at anytime now or in the future owns or transfers to another party, or that it does not own but to which it has rights to grant licenses. Except for the forgoing assignments and grants of license, neither party is assigning to or licensing the other party, by implication or otherwise, any Intellectual Property Rights, including without limitation rights in or to any derivatives, changes, modifications, enhancement, extensions to the Existing Material (the "New Material") made after the Cutover Date. Neither PFS nor Daisytek has any obligation, implied or otherwise, to share with the other the New Material. Neither PFS nor Daisytek is making any representation or warranty of any kind regarding the capabilities or quality of the Existing Material. Prior to the Cutover Date, Daisytek and PFS agree not to modify, enhance, or materially alter the Existing Materials except in accordance with the agreed upon procedures set forth in Exhibit-Protocol. PFS represents and warrants that there are no proceedings against PFS, or to PFS' best knowledge, adverse claims made or threatened against PFS or Daisytek with respect to the Existing Materials (including any claims that such Existing Materials infringe or misappropriate any patent, trademark, trade secret, copyright or other proprietary right of any third party); and there has been no litigation against PFS commenced or to PFS' knowledge threatened against PFS or Daisytek with respect to the Existing Materials (including any litigation alleging that such Existing Materials infringe or misappropriate any patent, trademark, trade secret, copyright or other proprietary right of any third party). Daisytek represents and warrants that there are no proceedings against Daisytek, or to Daisytek's best knowledge, adverse claims made or threatened against Daisytek or PFS with respect to the Existing Materials (including any claims that such Existing Materials infringe or misappropriate any patent, trademark, trade secret, copyright or other proprietary right of any third party); and there has been no litigation commenced against Daisytek or to Daisytek's knowledge threatened against Daisytek or PFS with respect to the Existing Materials (including any litigation alleging that such Existing Materials infringe or misappropriate any patent, trademark, trade secret, copyright or other proprietary right of any third party).

1.12. THIRD-PARTY LICENSES. PFS and Daisytek acknowledge that the total list of necessary software licenses for Daisytek to run their own data center consists of some third-party software application licenses owned by PFS and some licenses owned by Daisytek as listed on Schedule 1-Software License Schedule. Daisytek and PFS will cooperate in an effort to minimize the cost of obtaining the necessary access to or software licenses necessary to run two separate data centers (Daisytek/PFS). Daisytek and PFS will mutually agree upon an allocation for any pre-paid maintenance and license fees that PFS has paid on third-party software licenses owned by Daisytek. PFS will lead the licensing project with support from Daisytek to maximize leverage with the vendors. Bill Bergeron, or his designee, will call Design Technologies about MIS Studio for license and support, and if for any reason Design Technologies does not provide a license to Daisytek, then PFS will assist Daisytek in procuring such a license from Design Technologies.

PFS acknowledges and agrees that Daisytek has licensed from third-party vendors various software applications used in connection with the Designated Services (the "Daisytek Third Party Licenses"). PFS hereby agrees to indemnify and hold Daisytek harmless from any use, modification, termination or cancellation fees or charges imposed upon Daisytek in connection with PFS' use, modification, termination or cancellation of, or consent or waiver of any of the Daisytek Third Party Licenses (except as it relates to the Fulfillment Services or Designated Services, past, present or future).

1.13. KEY EMPLOYEES. Daisytek shall designate certain employees of PFS as key employees. For purposes of this Agreement, Robert Almond, Haitham Karim, and Steve Veitch are designated as PFS Key Employees. With respect to the PFS Key Employees, Daisytek and PFS agree that each PFS Key Employee shall give first and absolute priority to providing the Designated Services to Daisytek. The priority set forth in the

preceding sentence is subject to (i) reasonable personal days, sick days, holidays and vacation time taken in accordance with PFS policies and procedures in effect as of the Effective Date; and (ii) the number of hours purchased by Daisytek, more particularly described in Exhibit-SOW, provided, however, that the number of hours purchased will not restrict or impair PFS' resolution of any Level 1 incident as described in Exhibit-SLA. Although PFS will use its best efforts to make Jeff Murray available to Daisytek hereunder, Jeff Murray is an independent contractor engaged by PFS and not an employee of PFS and that as an independent contractor his availability is not within the sole control of PFS. To the extent PFS is able to control Jeff Murray's availability after June 25, 2001 (i.e. in connection with the prioritization of PFS projects assigned to him), PFS will give first and absolute priority to providing the Designated Services. PFS shall not replace the PFS Key Employees during the term of the Agreement, unless Daisytek consents to such replacement or such PFS Key Employee (i) voluntarily resigns from PFS, (ii) is dismissed by PFS for misconduct (e.g., fraud, drug abuse, theft), (iii) fails to perform his or her duties and responsibilities pursuant to this Agreement or (iv) dies or is unable to work due to his or her disability. Subject to the limitations set forth above, in the event any PFS Key Employee is removed before his or her service under the Agreement is completed, PFS shall as soon as practicable assign an appropriate replacement who shall thereafter be designated as a PFS Key Employee. In connection with its provision of the Designated Services, PFS shall not provide to any other customers of PFS priority over Daisytek in a manner that interferes with PFS' performance of the Designated Services. In addition, in no event shall PFS redeploy or reassign any PFS Key Employee to another account in a manner inconsistent with the obligations set forth in this Section 1.13.

1.14. ACCESS TO INFORMATION. To facilitate the performance of the Designated Services under this Agreement, each party may provide the other with information regarding, or limited access to, each party's inventory, order management and other computer systems and capabilities, including, without limitation, warehouse management and automation systems licensed from third parties as well as computer programs, formats, screens, protocols, hardware or software that are a part of or are used in connection with any of the foregoing (collectively the "System"). Each party acknowledges and agrees that it shall have no right, title, interest or license of any nature in any part of the other party's System, except as set forth in Section 1.11. Each party's limited right to have access to the other party's System is subject to that party's compliance with the other's system access and security requirements and may be terminated upon notice by the either party if it reasonably believes the other party is not complying with such requirements. Notwithstanding the foregoing, each party's "Proprietary Data" is, or will be, and shall remain the property of such party and shall be deemed Confidential Information of such party. Without such party's approval (in its sole discretion), its Proprietary Data shall not be, (1) used by the other party or its agents other than in connection with the Designated Services, (2) disclosed, sold, assigned, leased or otherwise provided to third parties by the other party or its agents or (3) commercially exploited by or on behalf of the other party or its agents. As used herein, "Proprietary Data" shall mean all data and information (1) submitted by one party to the other or obtained, maintained, developed or produced by one party for the other or (2) obtained, maintained, developed or produced by one party or its agents in connection with this Agreement, including, with respect to (1) and (2) hereof, information relating to such party's customers, employees, operations, facilities, consumer markets, products, capacities, procedures, security practices, research, development, business affairs and finances. Proprietary Data does not include the Existing Materials described in Section 1.11 above.

1.15. CONFIDENTIAL INFORMATION. Without limitation of any confidentiality agreement previously executed by the parties, each party acknowledges that in implementing and performing this Agreement, the other party may disclose and make available to it certain confidential and proprietary information, including without limitation, customer, product and process information ("Confidential Information"). Each receiving party agrees to utilize such information solely for the purpose of this Agreement and to keep and maintain all such information as confidential which shall not be disclosed to any other party. The provisions of this Section shall survive any termination or non-renewal of this Agreement. Notwithstanding the foregoing, a party may use, disclose or authorize the disclosure of Confidential Information that it receives that:

A. has been published or is in the public domain, or that subsequently comes into the public domain, through no fault of the receiving party;

B. is lawfully received from a third party having rights to publicly disseminate the Confidential Information without any restriction and without notice to the recipient of any restriction against its further disclosure;

C. is independently developed by the receiving party through persons or entities who have not had, either directly or indirectly, access to or knowledge of the Confidential Information;

D. is disclosed to a third party consistent with the terms of the written approval of the party originally disclosing the information;

E. is required by the receiving party to be produced under order of a court of competent jurisdiction or other similar requirements of a governmental agency, and the Confidential Information will otherwise continue to be Confidential Information required to be held confidential for purposes of this agreement; or

F. is required by the receiving party to be disclosed by applicable law or a stock exchange or association on which the receiving party's securities are listed.

The party making a disclosure under clauses (v) or (vi) must inform the non-disclosing party as promptly as is reasonably necessary to enable the non-disclosing party to take action to, and use the disclosing party's reasonable best efforts to, limit the disclosure and maintain confidentiality to the extent practicable.

1.16. RECORD RETENTION. PFS shall during the term of this Agreement for a period of 48 months following the termination or expiration of this Agreement, maintain complete and accurate records in connection with this Agreement and all transactions related thereto, including all records and supporting documentation appropriate or necessary to document either the Designated Services and the charges (including Monthly Fees) paid or payable by Daisytek under this Agreement. In addition, on or before June 15, 2001, PFS shall deliver to Daisytek copies of tape backups for fiscal years 1995 - 1997. For fiscal years thereafter, PFS will provide copies of tape backups of Daisytek information upon request.

2. TERM

2.1. TERM. This Agreement shall take effect upon the Effective Date and shall continue in full force and effect through [November 25, 2001], subject to the other provisions set forth herein.

2.2. RENEWAL TERM. Not later than forty-five (45) days prior to the then-scheduled expiration of this Agreement, Daisytek may notify PFS that it desires to extend the term of this Agreement for one or more additional periods of 30 days. Promptly after such notice, PFS and Daisytek will negotiate in good faith the terms and conditions for such extension, including but not necessarily limited to the compensation to be payable by Daisytek to PFS for the Designated Services to be provided by PFS during such extension of the term. If the parties reach agreement on such terms and conditions, then they will amend this Agreement to conform to such agreement; if the parties have not reached agreement on the terms and conditions of such extension prior to fifteen (15) days before the then-scheduled expiration date of this Agreement, then this Agreement will expire as scheduled and PFS will not have any obligation to provide Designated Services to Daisytek hereunder after such expiration date. Upon termination of this Agreement, all rights and obligations of the parties shall cease and terminate except as otherwise expressly set forth as surviving herein.

3. GENERAL PROVISIONS

3.1. ENTIRE AGREEMENT. This Agreement (including the exhibits and schedules attached hereto), the Asset Purchase Agreement (including the exhibits and schedules attached thereto) constitute the entire agreement of the parties with respect to the subject matter hereof, and supersedes and terminates any and all prior agreements or contracts, oral or written, entered into between the parties relating to the subject matter hereof. Each party acknowledges that there are no warranties, representations, covenants or understandings of any kind, manner or description whatsoever by either party to the other with respect to the premises except as expressly set forth herein.

3.2. NO AMENDMENT. This Agreement shall not be amended or otherwise modified except by a written agreement dated subsequent to the date of this Agreement and signed on behalf of PFS and Daisytek by their respective duly authorized representatives. No course of dealing, course of performance or failure of either party to

strictly enforce any term, right or condition of this Agreement shall be construed as a waiver or modification of any term, right or condition. No waiver of any breach of any provision of this Agreement shall be construed to be a waiver of any subsequent breach of the same or any other provision.

3.3. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

3.4. ASSIGNMENT. Neither party hereto may assign this Agreement without the prior written consent of the other party signed by such other party's duly authorized representative, which consent may be given or withheld in the sole discretion of the applicable party whose consent is requested.

3.5. NOTICES. Except as otherwise set forth herein, all notices in connection with this Agreement shall be deemed given as of the day they are sent by electronic transmission, sent by facsimile or deposited with a commercial courier for delivery to other party at the following addresses:

PFS:

PFSweb, Inc.
500 North Central Expressway
Plano, TX 75074
Attn: Chief Executive Officer

Daisytek:

Daisytek International Corporation
1025 Central Expressway South
Suite 200
Allen, TX 75013

or to such other address and/or facsimile number as the party to receive the notice or request so designates by written notice to the other.

3.6. INVALIDITY. If any provision of this Agreement shall be held by a court of competent jurisdiction to be illegal, invalid or unenforceable, the remaining provisions shall remain in full force and effect.

3.7. FURTHER ASSURANCES. Each party agrees to take such further action and execute, deliver and/or file such documents or instruments as are necessary to carry out the terms and purposes of this Agreement. In addition, Daisytek and PFS will each have access to and use of the space at all sites utilized in the performance of the Designated Services as appropriate hereunder upon compliance with Daisytek's or PFS' security and safety policies in effect at such facilities. Daisytek and PFS each will be responsible for and will hold the other Party harmless from any and all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees and expenses (collectively, "Losses"), relating to or arising out of the death or bodily injury of any agent, employee, customer, business invitee or business visitor of the indemnitee or the damage, loss or destruction of any tangible personal or real property (whether owned or leased) of the indemnitee caused by the negligent act or omission or the willful misconduct of the indemnitor. Each Party will indemnify and defend the other Party and will hold the other Party harmless from any and all Losses arising out of, under or in connection with, claims for which the indemnitor is responsible under the preceding sentence.

3.8. NO PARTNERSHIP. This Agreement is intended solely as a services agreement, and no partnership, joint venture, employment, agency, franchise, or other form of agreement or relationship is intended. Each party agrees to be responsible for all of its federal and state taxes, withholding, social security, insurance, and other benefits, and all salaries, benefits, and other costs of its employees, except as otherwise specifically contemplated by the provisions of this Agreement.

3.9. NO THIRD PARTY BENEFICIARY. This Agreement is not intended to create any rights in any person or entity who is not a party to this agreement, and no such rights are created hereunder.

3.10. MULTIPLE COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

3.11. FORCE MAJEURE. Neither party shall be responsible for delays or failures in performance resulting from acts beyond its control, including acts of war, national or local states of emergency, power outages, earthquakes or other natural disasters.

3.12. DISPUTE RESOLUTION. Any dispute, controversy, or claim of any kind or nature arising under or in connection with this Agreement shall be finally and conclusively determined by arbitration conducted pursuant to the commercial arbitration rules of the American Arbitration Association in Dallas, Texas. Any decision made by the arbitrators shall be final, binding and conclusive on each Party and each Party shall be entitled to be enforce to the fullest extent permitted by law and entered in any court of competent jurisdiction. The expenses of each party to any arbitration, including but not limited to such party's attorneys' fees, if any, and the expenses and fees of the arbitrators shall be recoverable or borne as determined by the arbitrators.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have executed this Agreement as of the Effective Date.

PFSWEB, INC.

By: -----
Name: -----
Title: -----

DAISYTEK INTERNATIONAL CORPORATION

By: -----
Name: -----
Title: -----

- Exhibit-SOW: Statement of Work
- Exhibit-SLA: Service Levels
- Exhibit-SSP: System Separation Project
- Exhibit-Bonus: Bonus Payments
- Exhibit-Protocol: Description of applicable protocols
- Schedule 1: Software License Schedule
- Schedule 2: Time and Events Schedule - System Separation Project

CHANGE IN CONTROL AGREEMENT

THIS AGREEMENT is entered into as of the 8th day of January, 2001 by and between PFSWEB, INC., a Delaware corporation (the "Company"), and _____ ("Executive").

WITNESSETH

WHEREAS, the Company considers the establishment and maintenance of a sound and vital management to be essential to protecting and enhancing the best interests of the Company and its stockholders; and

WHEREAS, the Company recognizes that, as is the case with many publicly held corporations, the possibility of a change in control may arise and that such possibility may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board (as defined in Section 1) has determined that it is in the best interests of the Company and its stockholders to secure Executive's continued services and to ensure Executive's continued and undivided dedication to his duties in the event of any threat or occurrence of a Change in Control (as defined in Section 1) of the Company; and

WHEREAS, the Board has authorized the Company to enter into this Agreement.

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.

"Bonus Amount" means the Per Share Price multiplied by the Bonus Number set forth below the Executive's name on the signature page hereto.

"Change in Control" means the occurrence of any one of the following events:

(a) individuals who, on the date of this Agreement, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the date of this Agreement, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; provided, however, that

no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies (or consents) by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;

(b) any "Person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board (the "Company Voting Securities"); provided, however, that the event described in this paragraph shall not be deemed to be a Change in Control by virtue of any of the following acquisitions: (i) by the Company or any Subsidiary, (ii) by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary, (iii) by any underwriter temporarily holding securities pursuant to an offering of such securities, (iv) pursuant to a Non-Qualifying Transaction (as defined herein), or (v) pursuant to any acquisition by Executive or any group of persons including Executive (or any entity controlled by Executive or any group of persons including Executive);

(c) the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a "Business Combination"), unless immediately following such Business Combination: (i) more than 50% of the total voting power of (x) the corporation resulting from such Business Combination (the "Surviving Corporation"), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the "Parent Corporation"), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (ii) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (iii) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (i), (ii) and (iii) above shall be deemed to be a "Non-Qualifying Transaction"); or

(d) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or a sale of all or substantially all of the Company's assets.

Notwithstanding the foregoing, a Change in Control of the Company shall not be deemed to occur (i) solely because any person acquires beneficial ownership of more than 50% of the Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that if after such acquisition by the Company such person becomes the beneficial owner of additional Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur or (ii) if prior to the occurrence of the Change in Control, and not as the result of any actual, proposed or threatened Change in Control event initiated by any third party, all of the Incumbent Directors then serving on the Board, by unanimous action, authorize the Company to enter into and effect the Change in Control.

"Per Share Price" means the per share amount (expressed in U.S. Dollars) paid or payable to holders of the Company Voting Securities in respect thereof in connection with, or as part of, any Change in Control, including without limitation, any tender offer price or merger price, provided, that (i) to the extent such amount is paid or payable in securities or property other than cash, such securities or property shall be valued at its fair market value on the date of the consummation of the Change in Control (such fair market value being deemed the closing price of any securities which are publicly traded) and (ii) if no amounts are paid or payable to holders of Company Voting Securities in connection with, or as part of, the Change in Control, the "Per Share Price" shall be equal to the closing price of the Company Voting Securities on the effective date of the Change in Control.

"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.

2. Obligation of Executive. The Executive agrees to faithfully render such services to the Company as the Executive and the Company shall mutually agree from time to time. This Agreement does not constitute an employment agreement or promise of employment and shall not restrict the ability of the Company to terminate the employment of the Executive, with or without cause, at any time (except as may be set forth in any separate written agreement now or hereafter entered into between the Company and the Executive); provided, however, that any termination of employment shall not terminate this Agreement except as set forth in Section 3 below.

3. Term of Agreement. This Agreement shall be effective on the date hereof and shall continue in effect until June 30, 2002, at which time this Agreement shall automatically terminate and expire and be of no further force or effect. Notwithstanding the foregoing, (i) this Agreement may be terminated at any time by the Company, upon written notice to the

Executive, provided that such termination shall be expressly authorized by the unanimous vote of the Incumbent Directors then serving on the Board (excluding the Executive, if the Executive is then serving as an Incumbent Director) and (ii) this Agreement shall automatically terminate upon the voluntary termination of employment by the Executive.

4. Bonus Amount. If a Change in Control shall occur during the term of this Agreement, the Company shall, within three business days thereafter, without setoff or counterclaim of any kind, pay to the Executive the Bonus Amount.

5. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Company (or any of its affiliated entities) or any entity which effectuates a Change in Control (or any of its affiliated entities) to or for the benefit of Executive (whether pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 5) (the "Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the sum of (x) the Excise Tax imposed upon the Payments and (y) the product of any deductions disallowed because of the inclusion of the Gross-Up Payment in Executive's adjusted gross income and the highest applicable marginal rate of federal income taxation for the calendar year in which the Gross-Up Payment is to be made. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to (i) pay federal income taxes at the highest marginal rates of federal income taxation for the calendar year in which the Gross-Up Payment is to be made, (ii) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes and (iii) have otherwise allowable deductions for federal income tax purposes at least equal to those which could be disallowed because of the inclusion of the Gross-Up Payment in the Executive's adjusted gross income.

(b) Subject to the provisions of Section 5(a), all determinations required to be made under this Section 5, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by the public accounting firm that is retained by the Company as of the date immediately prior to the Change in Control (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from the Company or the Executive that there has been a Payment, or such earlier time as is requested by the Company (collectively, the

"Determination"). In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized public accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company and the Company shall enter into any agreement requested by the Accounting Firm in connection with the performance of the services hereunder. The Gross-Up Payment under this Section 5 with respect to any Payments shall be made no later than thirty (30) days following such Payment. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion to such effect, and to the effect that failure to report the Excise Tax, if any, on Executive's applicable federal income tax return will not result in the imposition of a negligence or similar penalty. The Determination by the Accounting Firm shall be binding upon the Company and Executive. The parties acknowledge that as a result of the uncertainty in the application of Section 4999 of the Code at the time of the Determination, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") or Gross-Up Payments are made by the Company which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that the Executive thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Company to or for the benefit of Executive. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse the Executive for his Excise Tax, the Accounting Firm shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by Executive (to the extent he has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Company. Executive shall cooperate, to the extent the Company reimburses his expenses, with any reasonable requests by the Company in connection with any contests or disputes with the Internal Revenue Service in connection with the Excise Tax.

6. Withholding Taxes. The Company may withhold from all payments due to Executive (or his beneficiary or estate) hereunder all taxes which, by applicable federal, state, local or other law, the Company is required to withhold therefrom.

7. Reimbursement of Expenses. If any contest or dispute shall arise under this Agreement involving the failure or refusal of the Company to perform fully in accordance with the terms hereof, the Company shall 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 (regardless of the result thereof), together with interest in an amount equal to the Chase Bank prime rate from time to time in effect, but in no event higher than the maximum legal rate permissible under applicable law, such interest to accrue from the date the Company receives Executive's statement for such fees and expenses through the date of payment thereof, regardless of whether or not Executive's claim is upheld by a court of competent jurisdiction; provided, however, Executive shall be required to repay any such

amounts to the Company to the extent that a court 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.

8. Successors; Binding Agreement.

(a) This Agreement shall not be terminated by any Business Combination. In the event of any Business Combination, the provisions of this Agreement shall be binding upon the Surviving Corporation, and such Surviving Corporation shall be treated as the Company hereunder.

(b) 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 prior to the effectiveness of any such Business Combination that constitutes a Change in Control, shall be a breach of this Agreement.

(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.

9. 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, Texas 75074, Attention: Chief Executive Officer; 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.

10. No Setoff. 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.

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

12. Survival. The respective obligations and benefits afforded to the Company and Executive and arising during the term of this Agreement shall survive the termination of this Agreement.

13. 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.

14. 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.

15. 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. Except as otherwise specifically provided herein, the rights of, and benefits payable to, Executive, his estate or his beneficiaries pursuant to this Agreement are in addition to any rights of, or benefits payable to, Executive, his estate or his beneficiaries under any other employee benefit plan or compensation program of the Company.

CHANGE IN CONTROL SIGNATURE PAGE

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: -----

Title: -----

[Print Name of Executive]

[Bonus Number]

[Signature of Executive]

SUBSIDIARIES OF THE REGISTRANT

NAME	JURISDICTION OF INCORPORATION
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Priority Fulfillment Services, Inc.	Delaware
Priority Fulfillment Services of Canada, Inc	Canada
Priority Fulfillment Services Europe BV	Netherlands

CONSENT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
of PFSweb, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-40020, 333-42186 and 333-46096) on Form S-8 of PFSweb, Inc. of our report dated May 3, 2001, except for Notes 7 and 11, to which the date is as of June 28, 2001, relating to the consolidated balance sheet of PFSweb, Inc. and subsidiaries as of March 31, 2001 and the related consolidated statements of operations, stockholders' equity and cash flows and the related financial statement schedule for the year then ended, which report appears in the March 31, 2001 annual report on Form 10-K of PFSweb, Inc.

/s/ KPMG LLP

Dallas, Texas
June 28, 2001

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed registration statements on Form S-8 (Registration Statement File No. 333-40020, No. 333-42186 and No. 333-46096).

Dallas, Texas,
June 28, 2001

/s/ ARTHUR ANDERSEN LLP