UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2009

OR

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

For the Transition Period from __________ to __________

Commission File Number 000-28275

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

At May 15, 2009 there were 9,946,584 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2009

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES

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

	March 31, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 15,458	$ 16,050
Restricted cash	2,168	2,008
Accounts receivable, net of allowance for doubtful accounts of $695 and $980 at March 31, 2009 and December 31, 2008, respectively	33,123	44,546
Inventories, net of reserves of $1,983 and $2,124 at March 31, 2009 and December 31, 2008, respectively	45,759	47,186
Other receivables	13,820	13,072
Prepaid expenses and other current assets	3,110	3,802
Total current assets	113,438	126,664
PROPERTY AND EQUIPMENT, net	11,356	12,106
IDENTIFIABLE INTANGIBLES	922	961
GOODWILL	3,602	3,602
OTHER ASSETS	1,037	1,188
Total assets	$ 130,355	$ 144,521
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 17,783	$ 22,251
Trade accounts payable	57,618	61,988
Accrued expenses	18,146	21,054
Total current liabilities	93,547	105,293
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	3,681	4,951
OTHER LIABILITIES	867	1,192
Total liabilities	98,095	111,436
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.001 par value; 75,000,000 shares authorized; 9,942,140 and 9,935,095 shares issued at March 31, 2009 and December 31, 2008, respectively; and 9,923,779 and 9,916,734 outstanding at March 31, 2009 and December 31, 2008, respectively	10	10
Additional paid-in capital	92,836	92,728
Accumulated deficit	(61,641)	(61,393)
Accumulated other comprehensive income	1,140	1,825
Treasury stock at cost, 18,361 shares	(85)	(85)
Total shareholders' equity	32,260	33,085
Total liabilities and shareholders' equity	$ 130,355	$ 144,521

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
REVENUES:		
Product revenue, net	$ 66,263	$ 90,291
Service fee revenue	17,119	20,812
Pass-through revenue	5,555	7,366
Total net revenues	88,937	118,469
COSTS OF REVENUES:		
Cost of product revenue	60,832	83,979
Cost of service fee revenue	11,319	13,844
Pass-through cost of revenue	5,555	7,366
Total costs of revenues	77,706	105,189
Gross profit	11,231	13,280
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation expense of $103 and $201 in the three months ended March 31, 2009 and 2008, respectively	10,667	12,094
AMORTIZATION OF IDENTIFIABLE INTANGIBLES	26	202
Total operating expenses	10,693	12,296
Income from operations	538	984
INTEREST EXPENSE, NET	357	330
Income before income taxes	181	654
INCOME TAX EXPENSE, NET	429	240
NET INCOME (LOSS)	$ (248)	$ 414
NET INCOME (LOSS) PER SHARE:		
Basic	$ (0.02)	$ 0.04
Diluted	$ (0.02)	$ 0.04
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	9,924	9,892
Diluted	9,924	10,042

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

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (248)	$ 414
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,028	1,581
Provision for doubtful accounts	(174)	—
Provision for excess and obsolete inventory	300	324
Deferred income taxes	—	(23)
Stock-based compensation	103	201
Changes in operating assets and liabilities:		
Restricted cash	3	(441)
Accounts receivable	11,161	4,819
Inventories, net	438	(3,211)
Prepaid expenses, other receivables and other assets	(308)	(4,096)
Accounts payable, accrued expenses and other liabilities	(6,903)	11,815
Net cash provided by operating activities	6,400	11,383
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,215)	(664)
Net cash used in investing activities	(1,215)	(664)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(390)	(518)
Increase in restricted cash	(163)	(1,704)
Proceeds from issuance of common stock	5	7
Proceeds from (payments on) debt, net	(5,253)	(9,409)
Net cash used in financing activities	(5,801)	(11,624)
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	24	354
NET DECREASE IN CASH AND CASH EQUIVALENTS	(592)	(551)
CASH AND CASH EQUIVALENTS, beginning of period	16,050	14,272
CASH AND CASH EQUIVALENTS, end of period	$ 15,458	$ 13,721
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$ 66	$ 69

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

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. OVERVIEW AND BASIS OF PRESENTATION

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

PFSweb Overview

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

Supplies Distributors Overview

Supplies Distributors, PFSweb and InfoPrint Solutions Company ("IPS"), a joint venture company owned by Ricoh and International Business Machines Corporation ("IBM"), have entered into master distributor agreements under which Supplies Distributors acts as a master distributor of various products, primarily IPS product.

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

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

eCOST Overview

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

The Company's liquidity has been negatively impacted as a result of the merger with eCOST. Since the merger, eCOST has experienced a net use of cash primarily due to operating losses. As a result, the Company has had to support eCOST's cash needs with the goal of reducing losses. The amount of additional cash needed to support eCOST operations will depend upon working capital requirements, bank

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

financing availability as well as eCOST's continued ability to improve its financial results. Further advances to eCOST may be limited by the Company's current cash and future cash flow and may be restricted by the Company's credit facility obligations.

In the event eCOST is unable to increase its revenue and/or gross profit from its present levels, it may fail to comply with one or more of the financial covenants required under its working capital line of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and demand for payment under the Company parent guaranty. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations.

Management currently believes eCOST will meet the Company's expectations related to improved overall profitability. The Company has reported improvement in eCOST's financial results beginning in 2007, excluding the impact of any non-cash impairment charges, and currently expects improvement as a result of efforts to increase sales, improve product mix and control operating costs, although there can be no assurance that these future improvements will be achieved. If eCOST does not meet expectations, the Company currently anticipates that it would be able to terminate or sublease eCOST's facilities, liquidate remaining inventory through the eCOST website and reduce certain personnel related costs as needed so as to minimize any material impact upon the Company's other segments.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of March 31, 2009, and for the three months ended March 31, 2009 and 2008, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of March 31, 2009, its results of operations for the three months ended March 31, 2009 and 2008 and its cash flows for the three months ended March 31, 2009 and 2008. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

All share, per share and option amounts have been restated to reflect the 1-for-4.7 reserve stock split which occurred on June 2, 2008.

2. ***SIGNIFICANT ACCOUNTING POLICIES***

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 in the section entitled "Risk Factors." Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that the Company's consolidated financial statements are fairly stated in accordance with generally accepted accounting principles in the United States of America, and provide a fair presentation of the Company's financial position and results of operations.

Investment in Affiliates

Priority Fulfillment Services, Inc. ("PFS"), a wholly-owned subsidiary of PFSweb, has made advances to Supplies Distributors that are evidenced by a Subordinated Demand Note (the "Subordinated Note"). Under the terms of certain of the Company's debt facilities, the outstanding balance of the Subordinated Note cannot be increased to more than $6.5 million or decreased to less than $5.0 million without prior approval of the Company's lenders. As of March 31, 2009 and December 31, 2008, the outstanding balance of the Subordinated Note was $5.5 million. The Subordinated Note is eliminated in the Company's consolidated financial statements.

PFS has also made advances to eCOST, which aggregated $10.6 million as of March 31, 2009 and December 31, 2008. Certain of the Company's debt facilities provide that the total advances to eCOST may not be less than $2.0 million without prior approval of eCOST's lender. PFS has received the approval of its lender to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of its subsidiaries and/or affiliates, including eCOST, if needed. PFSweb has also advanced to eCOST $4.7 million as of March 31, 2009 and December 31, 2008.

Concentration of Business and Credit Risk

The Company's service fee revenue is generated under contractual service fee relationships with multiple client relationships. No service fee clients or product revenue customers exceeded 10% of consolidated revenue during the three months ended March 31, 2009. A summary of the nonaffiliated customer and client concentrations is as follows:

	Three Months Ended	
	March 31, 2009	March 31, 2008
Product Revenue (as a percentage of Product Revenue):		
Customer 1	13%	11%
Customer 2	9%	10%
Service Fee Revenue (as a percentage of Service Fee Revenue):		
Client 1	22%	39%
Client 2	13%	10%
Accounts Receivable:		
Client/Customer 1	10%	5%

Client 1 did not renew its contract with PFS effective January 2009, though certain project work will continue to occur during the first half of 2009.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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

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

eCOST's arrangements with its vendors are terminable by either party at will. Loss of any vendors could have a material adverse effect on eCOST's financial position, results of operations and cash flows. Sales of HP and HP-related products represented 42% of eCOST's net revenues (10% of the Company's consolidated total net revenues) in the three months ended March 31, 2009 and 57% of eCOST's net revenues (13% of the Company's consolidated total net revenues) in the comparable 2008 period.

Inventories

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

Supplies Distributors assumes responsibility for slow-moving inventory under certain master distributor agreements, subject to certain termination rights, but has the right to return product rendered obsolete by engineering changes, as defined. In the event PFSweb, Supplies Distributors and IPS terminate the master distributor agreements, the agreements provide for the parties to mutually agree on a plan of disposition of Supplies Distributors' then existing inventory.

Property and Equipment

The Company's property held under capital leases amounted to approximately $3.0 million and $3.4 million, net of accumulated amortization of approximately $8.9 million and $8.4 million, at March 31, 2009 and December 31, 2008, respectively.

Long-Lived Assets

The Company reviews long-lived assets for impairment periodically, but at a minimum annually, or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets include property, intangible assets, goodwill and certain other assets. Recoverability of assets 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 as 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. The Company makes judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. The Company records impairment losses in the period in which it determines that the carrying amount is not recoverable. This may require the Company to make judgments regarding long-term forecasts of their future revenues and costs related to the assets subject to review.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately $0.4 million during the three months ended March 31, 2009 and 2008. Income taxes of approximately $0.2 million and $43,000 were paid by the Company during the three months ended March 31, 2009 and 2008, respectively.

Impact of Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually, until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and we adopted SFAS 157 for financial assets and liabilities on January 1, 2008, with no material impact to our consolidated financial statements. We adopted fair value measurement treatment for nonfinancial assets and liabilities on January 1, 2009, which did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations*, and Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. Statement No. 141R modified the accounting and disclosure requirements for business combinations and broadens the scope of the previous standard to apply to all transactions in which one entity obtains control over another business. Statement No. 160 establishes new accounting and reporting standards for noncontrolling interests in subsidiaries. We applied the provisions of the new standards in the first quarter of 2009. The adoption of the statement did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. 142-3, Determination of the Useful Life of Intangible Assets ("FSP No. 142-3"). This guidance is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for SFAS No. 142's entity-specific factors. FSP No 142-3 was effective beginning January 1, 2009 and will be applied prospectively to intangible assets acquired after the effective date. The adoption of this FSP did not have a material impact on our consolidated financial statements.

3. COMPREHENSIVE INCOME (LOSS) (in thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net income (loss)	$ (248)	$ 414
Other comprehensive income (loss):		
Foreign currency translation adjustment	(685)	677
Comprehensive income (loss)	$ (933)	$ 1,091

4. *NET INCOME (LOSS) PER COMMON SHARE*

Basic and diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the reporting period. For the three months

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

ended March 31, 2008, common stock equivalents of 0.1 million are included in the diluted weighted average number of shares outstanding. For the three months ended March 31, 2009 and 2008, outstanding options to purchase common shares of 1.4 million and 0.5 million, respectively, were anti-dilutive and have been excluded from the weighted diluted average share computation.

5. *VENDOR FINANCING:*

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

	March 31, 2009	December 31, 2008
Inventory and working capital financing agreements:		
United States	$ 21,623	$ 23,885
Europe	16,199	16,422
Total	$ 37,822	$ 40,307

Inventory and Working Capital Financing Agreement, United States

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of IPS products in the United States, providing financing for eligible IPS inventory and certain receivables up to $30.5 million through its expiration in March 2010. As of March 31, 2009, Supplies Distributors had $4.8 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $5.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (3.75% as of March 31, 2009). The facility also includes a monthly service fee. Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, the Company has classified the outstanding amounts under this facility as accounts payable in the consolidated balance sheets.

Inventory and Working Capital Financing Agreement, Europe

Supplies Distributors' European subsidiary has a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance its distribution of IPS products in Europe. The asset based credit facility with IBM Belgium provides up to 16.0 million euros (approximately $21.3 million) in financing for purchasing IPS inventory and for certain receivables through its expiration in March 2010. As of March 31, 2009, Supplies Distributors' European subsidiaries had 1.6 million euros ($2.1 million) of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors and its European subsidiaries to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by certain of the assets of Supplies Distributors' European subsidiary, as well as collateralized guaranties of Supplies Distributors and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $5.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at Euribor plus

1.94% or Euribor plus 4.25%, depending on the type of borrowing utilized, (Euribor was 1.5% as of March 31, 2009). Supplies Distributors' European subsidiary pays a monthly service fee on the commitment. Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, the Company has classified the outstanding amounts under this facility as accounts payable in the consolidated balance sheets.

6. *DEBT AND CAPITAL LEASE OBLIGATIONS;*

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

	March 31, 2009	December 31, 2008
Loan and security agreements, United States		
Supplies Distributors	$ 8,000	$ 9,649
PFS	3,500	6,000
Credit facility — eCOST	—	—
Factoring agreement, Europe	2,327	2,577
Taxable revenue bonds	2,400	3,200
Master lease agreements	4,165	4,657
Other	1,072	1,119
Total	21,464	27,202
Less current portion of long-term debt	17,783	22,251
Long-term debt, less current portion	$ 3,681	$ 4,951

Loan and Security Agreement — Supplies Distributors

Supplies Distributors has a loan and security agreement with Wachovia Bank, N.A. ("Wachovia") to provide financing for up to $25 million of eligible accounts receivable in the United States and Canada. As of March 31, 2009, Supplies Distributors had $0.7 million of available credit under this agreement. The Wachovia facility expires on the earlier of March 2011 or the date on which the parties to the IPS master distributor agreement no longer operate under the terms of such agreement and/or IPS no longer supplies products pursuant to such agreement. Borrowings under the Wachovia facility accrue interest at prime rate plus 0.25% to 0.75% or Eurodollar rate plus 2.5% to 3.0%, dependent on excess availability, as defined, (3.75% as of March 31, 2009). This agreement contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than $5.0 million and may not maintain restricted cash of more than $5.0 million, and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors has entered into blocked account agreements with its banks and Wachovia pursuant to which a security interest was granted to Wachovia for all U.S. and Canadian customer remittances received in specified bank accounts. At March 31, 2009 and December 31, 2008, these bank accounts held $0.4 million and $0.1 million, respectively, which was restricted for payment to Wachovia.

Loan and Security Agreement — PFS

PFS has a Loan and Security Agreement ("Comerica Agreement") with Comerica Bank ("Comerica"). The Comerica Agreement provides for up to $10.0 million of eligible accounts receivable financing through March 2010. Borrowings under the Comerica Agreement accrue interest at a defined rate, which will generally be prime rate plus 2%, with a minimum of 4.5% (5.25% at March 31, 2009). As of March 31, 2009, PFS had $3.7 million of available credit under this facility. The Comerica Agreement contains cross default provisions, various restrictions upon PFS' ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of $20 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement restricts the amount of the subordinated note receivable from Supplies Distributors to a maximum of $6.5 million. Comerica has provided approval for PFS to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of its subsidiaries and/or affiliates, including eCOST, if needed. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb, Inc.

Credit Facility — eCOST

eCOST has an asset-based line of credit facility of up to $7.5 million from Wachovia, through May 2011, which is collateralized by substantially all of eCOST's assets. Borrowings under the facility are limited to a percentage of eligible accounts receivable and inventory. Outstanding amounts under the facility bear interest at rates ranging prime rate plus 0.75% to 1.25% or Eurodollar rate plus 3.0% to 4.0%, depending on eCOST's financial results. There were no outstanding amounts as of March 31, 2009. As of March 31, 2009, eCOST had $1.0 million of letters of credit outstanding and $1.5 million of available credit under this facility. In connection with the line of credit, eCOST entered into a cash management arrangement whereby eCOST's operating amounts are considered restricted and swept and used to repay outstanding amounts under the line of credit. As of March 31, 2009 and December 31, 2008, the restricted cash amount was $0.2 million. The credit facility restricts eCOST's ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb, Inc.), make investments and loans, pledge assets, make changes to capital stock ownership structure, and requires a minimum tangible net worth of $0 million, as defined. PFSweb has guaranteed all current and future obligations of eCOST under this line of credit.

Factoring Agreement

Supplies Distributors' European subsidiary has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million euros (approximately $10.0 million) of eligible accounts receivables through March 2010. As of March 31, 2009, Supplies Distributors' European subsidiary had approximately 0.4 million euros ($0.5 million) of available credit under this agreement. Borrowings accrue interest at Euribor plus 0.6% (2.3% at March 31, 2009). This agreement contains various restrictions upon the ability of Supplies Distributors' European subsidiary to, among other things, merge, consolidate and incur indebtedness, as well as financial covenants, such as minimum net worth. This agreement is secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

Taxable Revenue Bonds

PFS has a Loan Agreement with the Mississippi Business Finance Corporation (the "MBFC") in connection with the issuance by the MBFC of $5 million MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the "Bonds"). The MBFC loaned the proceeds of the Bonds to PFS for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in one of the Company's Southaven, Mississippi distribution facilities. The Bonds bear interest at a variable rate (2.2% as of March 31, 2009), as determined by Comerica Securities, as Remarketing Agent. PFS, at its option, may convert the Bonds to a fixed rate, to be determined by the Remarketing Agent at the time of conversion.

The primary source of repayment of the Bonds is a letter of credit (the "Letter of Credit") in the initial face amount of $5.1 million issued by Comerica pursuant to a Reimbursement Agreement between PFS and Comerica under which PFS is obligated to pay to Comerica all amounts drawn under the Letter of

Credit. The Letter of Credit has a maturity date of April 2010 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof. If the Letter of Credit is renewed or replaced, the Bonds require future annual principal repayments of $800,000 in January of each year through 2012. PFS' obligations under the Reimbursement Agreement are secured by substantially all of the assets of PFS, including restricted cash of $1.5 million and a Company parent guarantee.

Debt Covenants

To the extent the Company or any of its subsidiaries fail to comply with covenants applicable to its debt or vendor financing obligations, including the monthly financial covenant requirements and required level of shareholders' equity or net worth, and one or all of the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. In particular, in the event eCOST is unable to increase its revenue and/or gross profit from its present levels, or if PFS service fee revenue declines from expected levels and it is unable to reduce costs to correspond to such reduced revenue levels or if Supplies Distributors revenue or gross profit declines from expected levels, such events may result in a breach of one or more of the financial covenants required under its working capital line of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and demand for payment under the Company parent guaranty. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations.

Master Lease Agreements

The Company has a Term Lease Master Agreement with IBM Credit Corporation ("Master Lease Agreement") that provides for leasing or financing transactions of equipment and other assets, which generally have terms of three years. The amounts outstanding under this Master Lease Agreement ($1.5 million as of March 31, 2009 and $1.7 million as of December 31, 2008) are secured by the related equipment.

The Company has two other master agreements with financing companies that provide for leasing or financing transactions of certain equipment. The amounts outstanding under these agreements were $1.4 million and $1.5 million as of March 31, 2009 and December 31, 2008, respectively, and are secured by the related equipment.

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

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

7. *SEGMENT INFORMATION*

The Company is organized into three operating segments: PFSweb is an international provider of integrated eCommerce and business process outsourcing solutions and operates as a service fee business; Supplies Distributors is a master distributor primarily of IPS products; and eCOST is a multi-category online discount retailer of new, "close-out" and recertified brand-name merchandise.

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues (in thousands):		
PFSweb	$ 24,764	$ 30,280
Supplies Distributors	45,331	62,322
eCOST	20,932	27,969
Eliminations	(2,090)	(2,102)
	$ 88,937	$ 118,469
Income (loss) from operations (in thousands):		
PFSweb	$ (403)	$ 99
Supplies Distributors	1,416	1,652
eCOST	(475)	(767)
Eliminations	—	—
	$ 538	$ 984
Depreciation and amortization (in thousands):		
PFSweb	$ 1,935	$ 1,335
Supplies Distributors	10	4
eCOST	83	242
Eliminations	—	—
	$ 2,028	$ 1,581
Capital expenditures (in thousands):		
PFSweb	$ 1,158	$ 605
Supplies Distributors	—	6
eCOST	57	53
Eliminations	—	—
	$ 1,215	$ 664

	March 31, 2009	December 31, 2008
Assets (in thousands):		
PFSweb	$ 99,322	$ 108,436
Supplies Distributors	77,397	82,280
eCOST	13,760	13,489
Eliminations	(60,124)	(59,684)
	$ 130,355	$ 144,521

8. *COMMITMENTS AND CONTINGENCIES*

The Company receives municipal tax abatements in certain locations. During 2004 the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements. In December 2006, the Company received notice that the municipal authority planned to make an adjustment to the Company's tax abatement. The Company has disputed the adjustment, but if the dispute is not resolved favorably, additional taxes of approximately $1.7 million could be assessed against the Company.

The Company is subject to claims in the ordinary course of business, including claims of alleged infringement by the Company or its subsidiaries of the patents, trademarks and other intellectual property rights of third parties. If the party asserting such claims commences litigation, the Company could be required to defend itself or its customers. The Company is not aware of any such litigation.

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

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

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2008, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our reliance on the fees generated by the transaction volume or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with International Business Machines Corporation ("IBM") and InfoPrint Solutions Company ("IPS"), a joint venture company owned by Ricoh and IBM;
- our dependence upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- trends in e-commerce, outsourcing, government regulation both foreign and domestic and the market for our services;
- whether we can continue and manage growth;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- the unknown effects of possible system failures and rapid changes in technology;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- impact of reverse stock split;
- potential delisting;
- our dependency on key personnel;
- the impact of new accounting standards, and changes in existing accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing;
- our ability and the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants;
- relationship with and our guarantees of certain of the liabilities and indebtedness of our subsidiaries;
- taxation on the sale of our products;
- eCOST's potential indemnification obligations to its former parent;
- eCOST's ability to maintain existing and build new relationships with manufacturers and vendors and the success of its advertising and marketing efforts;
- eCOST's ability to increase its sales revenue and sales margin and improve operating efficiencies; and
- eCOST's ability to generate projected cash flows sufficient to cover the values of its intangible assets.

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

Overview

We are an international provider of integrated eCommerce and business process outsourcing solutions to major brand name companies seeking to optimize their supply chain efficiencies and to extend their traditional business and e-commerce initiatives. Through our eCOST.com business unit, we are a leading multi-category online discount retailer of new, “close-out” and recertified brand-name merchandise. We derive our revenues from three business segments: as an eCommerce and business process outsourcer, a master distributor and an online discount retailer.

First, in our eCommerce and business process outsourcing segment we derive our revenues from a broad range of services, including professional consulting, technology collaboration, order management, managed web hosting and web development, the development of an eCommerce technology platform, customer relationship management, financial services including billing and collection services and working capital solutions, kitting and assembly services, information management and international fulfillment and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete infrastructure needs to a single source and to focus on their core competencies. Our distribution services are conducted at warehouses that we lease or manage and include real-time inventory management and customized picking, packing and shipping of our clients’ customer orders. We currently offer the ability to provide infrastructure and distribution solutions to clients that operate in a range of vertical markets, including technology manufacturing, computer products, cosmetics, fragile goods, contemporary home furnishings, apparel, aviation, telecommunications and consumer electronics, among others.

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

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

Our second business segment is a product revenue model. In this segment, we are a master distributor of product for IPS and certain other clients. In this capacity, we purchase, and thus own, inventory and recognize the corresponding product revenue. As a result, upon the sale of inventory, we own the accounts receivable. Freight costs billed to customers are reflected as components of product revenue. This business segment requires significant working capital requirements, for which we have senior credit facilities to provide for approximately $87 million of available financing.

Our third business segment is a web-commerce product revenue model focused on the sale of products to a broad range of consumer and small business customers. In this segment we operate as a multi-category online discount retailer of new, “close-out” and recertified brand-name merchandise. Our product line currently offers approximately 250,000 products in several primary merchandise categories, primarily including computers, networking, electronics and entertainment, TV’s, plasmas and monitors, cameras and camcorders, memory and storage, “For the Home” and sports and leisure.

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

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

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

We continue to monitor and control our costs to focus on profitability. While we are targeting our new service fee contracts to yield increased gross profit, we also expect to incur incremental investments to implement new contracts, investments in infrastructure and sales and marketing to support our targeted growth and increased public company professional fees.

Our expenses comprise primarily four categories: 1) cost of product revenue, 2) cost of service fee revenue, 3) cost of pass-through revenue and 4) operating expenses.

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

Cost of service fee revenue — consists primarily of compensation and related expenses for our web-enabled customer contact center services, international fulfillment and distribution services and professional consulting services, and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses.

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

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

Monitoring and controlling our available cash balances continues to be a primary focus. Our cash and liquidity positions are important components of our financing of both current operations and our targeted growth.

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Results of Operations

For the Interim Periods Ended March 31, 2009 and 2008

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

	Three Months Ended March 31,			% of Net Revenues	
	2009	2008	Change	2009	2008
Revenues:					
Product revenue, net	$ 66.3	$ 90.3	$ (24.0)	74.5%	76.2%
Service fee revenue	17.1	20.8	(3.7)	19.2%	17.6%
Pass-through revenue	5.5	7.4	(1.9)	6.3%	6.2%
Total net revenues	88.9	118.5	(29.6)	100.0%	100.0%
Cost of Revenues					
Cost of product revenue (1)	60.9	84.0	(23.1)	91.8%	93.0%
Cost of service fee revenue (2)	11.3	13.8	(2.5)	66.1%	66.5%
Pass-through cost of revenue (3)	5.5	7.4	(1.9)	100.0%	100.0%
Total cost of revenues	77.7	105.2	(27.5)	87.4%	88.8%
Product revenue gross profit	5.4	6.3	(0.9)	8.2%	7.0%
Service fee gross profit	5.8	7.0	(1.2)	33.9%	33.5%
Pass-through gross profit	—	—	—	—%	—%
Total gross profit	11.2	13.3	(2.1)	12.6%	11.2%
Operating Expenses	10.7	12.3	(1.6)	12.0%	10.4%
Income from operations	0.5	1.0	(0.5)	0.6%	0.8%
Interest expense, net	0.3	0.4	(0.1)	0.4%	0.3%
Income before income taxes	0.2	0.6	(0.4)	0.2%	0.6%
Income tax expense, net	0.4	0.2	0.2	0.5%	0.2%
Net income (loss)	$ (0.2)	$ 0.4	$ (0.6)	(0.3)%	0.3%

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

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

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

Product Revenue, net. eCOST product revenue was $20.9 million in the three months ended March 31, 2009, a 25.2% decrease as compared to $28.0 million in the comparable quarter of the prior year. The decrease is primarily due to a decline in sales in its business to business channel resulting from the impact of the current economic environment and eCOST's reduced emphasis on this lower margin channel. Partially offsetting this decrease was an increase in sales in the higher margin business to consumer sales channel, primarily due to continued emphasis on growth through an expanded product line, improved service capabilities and enhanced website capabilities.

Supplies Distributors product revenue of $45.4 million decreased $17.0 million, or 27.3% in the three months ended March 31, 2009 as compared to the same quarter of the prior year. The decrease is primarily due to decreased sales volume on certain products resulting from the impact of the overall global economic pressures and inventory rationalization by customers. In addition, product revenue in the March 2009 quarter was negatively impacted by a $1.4 million reduction of revenue arising from a customer bankruptcy.

Service Fee Revenue. Service fee revenue of $17.1 million decreased $3.7 million, or 17.7%, in the three months ended March 31, 2009 as compared to the same quarter of the prior year. The decrease in service fee revenue for the three months ended March 31, 2009 is primarily due to the non-renewal of a certain U.S. government agency client relationship partially offset by increased service fees generated from the impact of new service contract relationships. The change in service fee revenue is shown below ($ millions):

	Three Months
Period ended March 31, 2008	$ 20.8
New service contract relationships, including certain incremental projects under new contracts	1.3
Change in existing client service fees	(4.1)
Terminated clients not included in 2009 revenue	(0.9)
Period ended March 31, 2009	$ 17.1

Cost of Product Revenue. The gross margin for eCOST was $2.1 million or 9.8% of product revenue in the three months ended March 31, 2009 and $2.2 million or 8.0% of product revenue during the comparable period of 2008. The increase in gross margin is primarily due to a shift in product sales to the higher margin business-to-consumer channel. As we continue to target an increasing percentage of eCOST revenues to be generated from the business-to-consumer channel, we expect overall gross margin for eCOST will continue to be higher than the prior year.

Supplies Distributors cost of product revenue decreased by $16.3 million, or 28.0%, to $42.0 million in the three months ended March 31, 2009, primarily as a result of decreased product sales. The resulting gross profit margin was $3.4 million or 7.5% of product revenue for the three months ended March 31, 2009 and $4.1 million or 6.5% of product revenue for the comparable 2008 period. The increase in margin percentage is partially due to incremental gross margin earned on product sales resulting from certain product price increases and the impact of certain incremental inventory cost reductions, which were partially offset by the impact of a reduction in revenue arising from a customer bankruptcy during the quarter.

Cost of Service Fee Revenue. Gross profit as a percentage of service fees was 33.9% in the three months ended March 31, 2009, relatively consistent with the 33.5% in the same period of the prior year. Both periods included the benefit of incremental project work from a U.S. government contract relationship that was not renewed and will be completed in the second quarter of 2009.

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

Operating Expenses. Operating expenses for the three months ended March 31, 2009 decreased $1.6 million to $10.7 million from $12.3 million in the same 2008 period. As a percentage of total net revenue, operating expenses were 12.0% in the three months ended March 31, 2009 and 10.4% in the comparable period. The increase in percentage of total net sales is primarily due to the reduction in total net revenues and the impact of certain personnel related expenses. During the three months ended March 31, 2009, we implemented certain cost reductions to help reduce the impact of the lower service fee revenue.

Income Taxes. We recorded a tax provision associated primarily with state income taxes and our subsidiary Supplies Distributors’ Canadian and European operations. A valuation allowance has been provided for the majority of our net deferred tax assets as of March 31, 2009 and December 31, 2008, which are primarily related to our net operating loss carryforwards, and certain foreign deferred tax assets. We expect that we will continue to record an income tax provision associated with state income taxes and Supplies Distributors’ Canadian and European results of operations.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $11.4 million for the three months ended March 31, 2008, and primarily resulted from an $11.8 million of increase in accounts payable, accrued expenses and other liabilities, a $4.8 million decrease in accounts receivable and cash income before working capital changes of $2.5 million. These benefits were offset by a $4.1 million increase in prepaid expenses, other receivables and other assets, a $3.2 million increase in inventories and an increase in restricted cash of $0.4 million.

Net cash used in investing activities for the three months ended March 31, 2009 and 2008 totaled $1.2 million and $0.7 million, respectively, resulting from capital expenditures.

Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, and general expansion and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures to support new contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $3 to $5 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financing or achieve the financial results necessary to support such investments.

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

Net cash used in financing activities was approximately $11.6 million for the three months ended March 31, 2008, primarily representing payments on debt and capital lease obligations partially offset by an increase in restricted cash.

Our liquidity has been negatively impacted as a result of the merger with eCOST. Since the merger, eCOST has experienced a net use of cash primarily due to operating losses. As a result, PFSweb has had to support eCOST's cash needs with the goal of reducing operating losses. The amount of further cash needed to support eCOST operations will depend upon the financing available as well as eCOST's ability to improve its financial results. eCOST's results, excluding the impact of any non-cash impairment charges, have improved beginning in 2007, and we currently expect improvement as a result of efforts to increase sales, improve product mix and further improve operational efficiencies.

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

During the three months ended March 31, 2009, our working capital decreased to $19.9 million from $21.4 million at December 31, 2008. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including the sale of equity, utilizing capital or operating leases, borrowing under our credit facilities, expanding our current credit facilities, entering into new debt agreements or transferring to third parties a portion of our subordinated loan balance due from Supplies Distributors. In conjunction with certain of these alternatives, we may be required to provide certain letters of credit to secure these arrangements. We currently believe that our cash position, financing available under our credit facilities and funds generated from operations (including cost reductions related to the nonrenewal of our U.S. government contract) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries Supplies Distributors and eCOST, if necessary, for at least the next twelve months.

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

The following is a schedule of our total contractual cash obligations which is comprised of operating leases, debt, vendor financing and capital leases (including interest) as of March 31, 2009, (in millions):

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt and vendor financing	$ 56,716	$ 54,003	$ 2,489	$ 224	$ —
Capital lease obligations	3,141	1,898	1,203	40	—
Operating leases	19,957	8,333	9,415	2,209	—
Total	$ 79,814	$ 64,234	$ 13,107	$ 2,473	$ —

In support of certain debt instruments and leases, as of March 31, 2009, we had $2.2 million of cash restricted for repayment to lenders. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain of our subsidiaries' credit facilities. Many of these facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other credit facilities and agreements. These covenants include minimum levels of net worth for the individual borrower subsidiaries and restrictions on the ability of the borrower subsidiaries to advance funds to other borrower subsidiaries. As a result, it is possible for one or more of these borrower subsidiaries to fail to meet their respective covenants even if another borrower subsidiary otherwise has available excess funds, which, if not restricted, could be used to cure the default. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders' equity, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. In particular, in the event eCOST is unable to increase its revenue and/or gross profit from its present levels, or if PFS service fee revenue declines from expected levels and it is unable to reduce costs to correspond to such reduced revenue levels or if Supplies Distributors revenue or gross profit declines from expected levels, such events may result in a breach of one or more of the financial covenants required under its working capital line of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and payment under our parent guaranty. A requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of March 31, 2009, we were in compliance with all debt covenants. We do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

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

To finance their distribution of IPS products, Supplies Distributors and its subsidiaries have short-term credit facilities with IBM Credit LLC ("IBM Credit") and IBM Belgium Financial Services S.A. ("IBM Belgium"). We have provided a collateralized guaranty to secure the repayment of these credit facilities. These asset-based credit facilities provided financing for up to $30.5 million and up to 16.0 million euros (approximately $21.3 million) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2010.

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

Supplies Distributors’ European subsidiary has a factoring agreement with Fortis Commercial Finance N.V. (“Fortis”) to provide factoring for up to 7.5 million euros (approximately $10.0 million) of eligible accounts receivables through March 2010.

These credit facilities contain cross default provisions, various restrictions upon the ability of Supplies Distributors and its subsidiaries to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $5.0 million, not maintain restricted cash of more than $5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure and a minimum shareholders’ equity of at least $18.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries under these facilities if they are unable to do so. We have also provided a guarantee of the obligations of Supplies Distributors and its subsidiaries to IBM and IPS, excluding the trade payables that are financed by IBM credit.

Our subsidiary, Priority Fulfillment Services, Inc. (“PFS”), has a Loan and Security Agreement (“Agreement”) with Comerica Bank (“Comerica”), which provides for up to $10.0 million of eligible accounts receivable financing through March 2010. We entered this Agreement to supplement our existing cash position, and provide funding for our current and future operations, including our targeted growth. The Agreement contains cross default provisions, various restrictions upon our ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb, Inc.), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of $20 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The agreement also limits PFS’ ability to increase the subordinated loan to Supplies Distributors to more than $6.5 million and permits PFS to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of its subsidiaries and/or affiliates, including eCOST. The Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb.

eCOST currently has an asset-based line of credit facility of up to $7.5 million with Wachovia, which is collateralized by substantially all of eCOST’s assets and expires in May 2011. Borrowings under the facility are limited to a percentage of eligible accounts receivable and letter of credit availability is limited to a percentage of accounts receivable and inventory. As of March 31, 2009, eCOST had $1.0 million of letters of credit outstanding and $1.5 million of available credit under this facility. The credit facility restricts eCOST’s ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as a minimum tangible net worth of $0 million, as defined. PFSweb has guaranteed all current and future obligations of eCOST under this line of credit.

In 2004, PFS incurred more than $5 million in capital expenditures to support incremental business from a distribution facility in Southaven, MS. PFS financed a significant portion of these expenditures through a Loan Agreement with the Mississippi Business Finance Corporation (the “MBFC”) pursuant to which the MBFC issued $5 million MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the “Bonds”). The MBFC loaned PFS the proceeds of the Bonds for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in the Southaven, Mississippi distribution facility. The primary source of repayment of the Bonds is a letter of credit (the "Letter of Credit") in the initial face amount of $5.1 million issued by Comerica pursuant to a Reimbursement Agreement between us and Comerica under which PFS is obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has a maturity date of April 2010 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof. The amount outstanding on this Loan Agreement as of March 31, 2009 was $2.4 million. PFS' obligations under the Reimbursement Agreement are secured by substantially all of its assets, including restricted cash of $1.5 million and a Company parent guarantee.

To the extent we fail to comply with the various debt covenants described above, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. Any requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of March 31, 2009, we were in compliance with all debt covenants.

eCOST has historically incurred significant operating losses and used cash to fund its operations. As a result, we have been required to invest cash to fund eCOST's operations, which we may not be able to continue to do without approval from our lenders. The amount of further cash needed to support eCOST operations depends upon the financing available under its credit line as well as eCOST's ability to improve its financial results. Through March 31, 2009, we have advanced $15.3 million to eCOST to fund eCOST's cash flow requirements and have lender approval to advance incremental amounts subject to certain cash inflows to PFS, as defined, to certain of our subsidiaries and/or affiliates, including eCOST. In the event we need to invest further cash to eCOST, we may be required to seek approval from our lenders to provide such funds. We can provide no assurance that we will receive such approval from our lenders or any terms or conditions required by our lenders in order to obtain such approval. In addition, PFSweb has provided a guaranty of eCOST's bank line of credit and certain eCOST vendor trade payables.

We receive municipal tax abatements in certain locations. During 2004 we received notice from a municipality that we did not satisfy certain criteria necessary to maintain the abatements. In December 2006, we received notice that the municipal authority planned to make an adjustment to our tax abatement. We have disputed the adjustment, but if the dispute is not resolved favorably, additional taxes of $1.7 million could be assessed against us.

Seasonality

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

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

Inflation

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

Critical Accounting Policies

A description of our critical accounting policies, including goodwill and long-lived assets, is included in Note 2 of the consolidated financial statements in our December 31, 2008 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

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

Interest Rate Risk

Our interest rate risk exists from our outstanding balances on our inventory and working capital financing agreements, taxable revenue bonds, factoring agreement, and loan and security agreements for the financing of inventory, accounts receivable and certain other receivables and certain equipment, which amounted to $55.1 million at March 31, 2009. A 100 basis point movement in interest rates would result in approximately $0.3 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at March 31, 2009.

Foreign Exchange Risk

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

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial and Accounting Officer. Based upon the evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15-d-15(f) of the Exchange Act) during the three months ended March 31, 2009 that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes with regard to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 filed with the Securities and Exchange Commissions on March 31, 2009 other than those as set forth below.

Risks Related to All Our Business Segments

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

Recently, the credit markets and the financial services industry have been experiencing a period of unprecedented turmoil and upheaval characterized by the bankruptcy, failure, collapse or sale of various financial institutions and an unprecedented level of intervention from the United States and foreign governments. The current economic crisis could also adversely impact our customers' operations or ability to maintain liquidity which may negatively impact our business and results of operations.

Our business and future growth currently depend on our ability to access bank and commercial lines of credit. We currently depend on an aggregate of approximately $106.7 million in credit facilities provided by various banks and commercial lenders. These facilities currently mature at various dates through May 2011 and are secured by substantially all our assets. Our ability to renew our credit facilities depends upon various factors, including the availability of bank loans and commercial credit in general, as well as our financial condition and prospects. Therefore, we cannot guarantee that these credit facilities will continue to be available beyond their current maturity on reasonable terms or at all. Our inability to renew or replace our credit facilities or find alternative financing would materially adversely affect our business, financial condition, operating results and cash flow.

Risks Related to Our PFS and Supplies Distributors Operating Segments

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

For the three months ended March 31, 2009 and 2008, a U.S. government agency and Xerox Corporation represented the source of approximately 22% and 13%, respectively, and approximately 39% and 10%, respectively of our total service fee revenue, excluding pass-through revenue. The loss of, or non-payment of invoices by, any or all such clients would have a material adverse effect upon our business. In particular, the agreements under which we provide services to such clients are terminable at will upon notice by such clients. Most of our activity under our contract with the U.S. government agency concluded in the first quarter of 2009 and the nonrenewal of that contract, as well as the loss of, or non-payment of invoices by, any or all of such other clients are likely to have a material adverse effect upon our business.

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

Sales by Supplies Distributors to two customers accounted for approximately 32% and 30% of Supplies Distributors' total product revenue for the three months ended March 31, 2009 and 2008, respectively, (16% of our consolidated net revenues in each three month period). The loss of any one or both of such customers, or non-payment of any material amount by these or any other customer, are likely to have a material adverse effect upon Supplies Distributors' business.

Risks Related to eCOST, our Online Discount Retailer Segment

Our business is subject to the risk of supplier concentration.

Our business is dependent on sales of Hewlett Packard (HP) and HP-related products, which represented approximately 42% of eCOST's net revenues (10% of our consolidated net revenues) in the three months ended March 31, 2009 and 57% of eCOST's net revenues (13% of our consolidated net revenues) in the comparable period of 2008. If our ability to purchase direct from HP is terminated or restricted, or if the demand for HP and HP-related products declines, our business will be materially adversely affected.

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

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

None

ITEM 5. Other Information

None

ITEM 6. Exhibits

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1(1)	Amended and Restated Certificate of Incorporation
3.2(1)	Amended and Restated Bylaws
10.1	Seventh Amended and Restated Notes Payable Subordination Agreement by and between Priority Fulfillment Services, Inc., Supplies Distributors, Inc. and IBM Credit Corporation.
10.2	Amendment 10 to Agreement for Inventory Financing.
10.3	Amendment 9 to Amended and Restated Platinum Plan Agreement.
10.4	Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.
10.5	Seventh Amendment to First Amended and Restated Loan and Security Agreement by and between Comerica Bank and Priority Fulfillment Services, Inc.
10.6	2009 Management Bonus Plan
31.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657) and Annual Report on Form 10-K for the Fiscal Year ended December 31, 2005 filed on March 31, 2006.

SIGNATURE

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

Date: May 15, 2009

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

IBM Credit LLC

SEVENTH AMENDED AND RESTATED
NOTES PAYABLE SUBORDINATION AGREEMENT

IBM CREDIT LLC
North Castle Drive
Armonk, NY 10504

Ladies and/or Gentlemen:

This Seventh Amended and Restated Notes Payable Subordination Agreement amends and restates in its entirety the Amended and Restated Notes Payable Subordination Agreement dated November 13, 2002 executed by Priority Fulfillment Services, Inc., ("PFS"). Supplies Distributors, Inc., with its principal place of business at 500 North Central Expressway, Plano, TX 75074 ("SDI"), is/may become further indebted to PFS. PFS represents that no part of said indebtedness has been assigned to or subordinated in favor of any other person, firm or corporation, other than pursuant to the Notes Payable Subordination Agreement, dated as of March 29, 2002 by and between PFS and Wachovia Bank, National Association (formerly known as Congress Financial Corporation (Southwest)) ("Wachovia") ("Notes Payable Subordination Agreement") and that PFS does not hold any security therefor. Capitalized terms used herein without definition shall have the meaning ascribed thereto in the Financing Agreement referred to below.

To induce IBM Credit LLC ("IBM Credit") to continue financing SDI under the terms of the Agreement for Inventory Financing dated March 29, 2002 with SDI (as amended, modified, and supplemented from time to time, the "Financing Agreement") and in consideration of any loans, advances, payments, extensions or credit (including the extension or renewal, in whole or in part, of any antecedent or other debt), benefits or financial accommodations heretofore or hereafter made, granted or extended by IBM Credit or which IBM Credit has or will become obligated to make, grant or extend to or for the account of SDI whether under the Financing Agreement or otherwise, and in consideration of any obligations heretofore or hereafter incurred by SDI to IBM Credit, whether under the Financing Agreement or otherwise, PFS agrees to make the payment of the indebtedness referred to in the first paragraph hereof and any and all other present or future indebtedness of SDI to PFS together with any and all interest accrued thereon (collectively the "Secondary Obligations") subject and subordinate to the prior indefeasible payment in full of any and all debts, obligations and liabilities of SDI to IBM Credit, whether absolute or contingent, due or to become due, now existing or hereafter arising and whether direct or acquired by IBM Credit by transfer, assignment or otherwise (collectively the "Primary Obligations") and that SDI shall make no payments to PFS until the Primary Obligations have been indefeasibly paid in full as acknowledged in writing by IBM Credit. Notwithstanding the foregoing, SDI may make payments in respect of the Secondary Obligations provided that (i) no Default or Event of Default exists immediately prior to the payment of the Secondary Obligations and that no Default or Event of Default will occur after any payment in respect of the Secondary Obligations and, (ii) any such payment shall not cause the total amount of the Secondary Obligations to be less than Five Million Dollars ($5,000,000.00), and (iii) such payment would be permitted under the Notes Payable Subordination Agreement. Except as provided above, PFS agrees not to ask, demand, sue for, take or receive payment or security for all or any part of the Secondary Obligations until and unless all of the Primary Obligations shall have been fully paid and discharged.

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

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

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

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

Dated: March ___, 2009.

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________

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

To: IBM Credit LLC

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

SUPPLIES DISTRIBUTORS, INC.

By: ______________________________

Name: Joseph Farrell
Title: President / CEO

ACCEPTED:

IBM CREDIT LLC

By: ______________________________

Name: Stanton Clark
Title: Manager, Credit

ACKNOWLEDGMENT OF SUBORDINATION

______________________________)
)SS
______________________________)

On the ___ day of March, 2009, appeared before me ______________________________ to me known to be the individual described in and who executed the foregoing instrument, and who acknowledged to me that the same was executed as his or her free and voluntary act for the uses and purposes therein set forth.

____
(Notary Public)

My Commission Expires:
____________________, _____

AMENDMENT NO. 10
TO
AGREEMENT FOR INVENTORY FINANCING

This Amendment No. 10 (“Amendment”) to the Agreement for Inventory Financing is made as of March ___, 2009 by and among **IBM Credit LLC**, a Delaware limited liability company (“IBM Credit”), **Business Supplies Distributors Holdings, LLC**, a limited liability company duly organized under the laws of the state of Delaware (“Holdings”), **Supplies Distributors, Inc.** (formerly known as BSD Acquisition Corp.), a corporation duly organized under the laws of the state of Delaware (“Borrower”), **Priority Fulfillment Services, Inc.**, a corporation duly organized under the laws of the state of Delaware (“PFS”) and **PFSweb, Inc.**, a corporation duly organized under the laws of the state of Delaware (“PFSweb”) (Borrower, Holdings, PFS, PFSweb, and any other entity that executes this Agreement or any Other Document, including without limitation all Guarantors, are each individually referred to as a “Loan Party” and collectively referred to as “Loan Parties”).

RECITALS:

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

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

AGREEMENT

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

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

Section 2. Amendment.

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

A. Section 1 of the Agreement is hereby amended by amending the definition of “Amended and Restated Notes Payable Subordination Agreement” to read in its entirety as follows:

“Amended and Restated Notes Payable Subordination Agreement”: “the Seventh Amended and Restated Notes Payable Subordination Agreement dated March ___, 2009 executed by PFS in favor of IBM Credit.”

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

“Termination Date”: shall mean April 10, 2010 or such other date as IBM Credit and the Borrower may agree to from time to time in writing.”

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

"**8.6. Restricted Payments.** Borrower will not, directly or indirectly make any of the following payments ("Restricted Payments") without prior written consent from IBM Credit, which shall not be unreasonably delayed or denied: (i) declare or pay any dividend (other than dividends payable solely in common stock of Borrower) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Borrower or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations), provided, however, that Borrower (a) may in the ordinary course of administration thereof make payments on the revolving loans made by Wachovia Bank, National Association (formerly known as Congress Financial Corporation (Southwest)) ("Wachovia") pursuant to the Congress Credit Agreement, as permitted by the Amended and Restated Notes Payable Subordination Agreement; and, (b) may in calendar year 2009 pay cash dividends not to exceed one hundred percent of Borrower's calendar year 2008 net income according to GAAP, plus all cash dividends received from its subsidiaries. Holdings is also permitted to pay cash dividends in calendar year 2009 equal to all cash dividends it receives in calendar year 2009 from its subsidiaries provided such distributions do not cause an event of default.

Section 3. Conditions of Effectiveness of Amendment. This Amendment shall become effective upon the receipt by IBM Credit of: (i) this Amendment which shall have been authorized, executed and delivered by each of the parties hereto and IBM Credit shall have received a copy of a fully executed Amendment, and (ii) the Seventh Amended and Restated Notes Payable Subordination Agreement executed by PFS, and (iii) a subordinated demand note issued in favor of IBM Credit and Wachovia, in form and substance satisfactory to IBM Credit, in the amount of Five Million Dollars ($5,000,000) and (iv) in the event that products currently supplied by IBM Printing Systems Division ("Infoprint Products ") cease to be sold to Loan Parties by an entity that is wholly owned by IBM, on the date of such cessation any Infoprint Products then forming part of the Collateral shall continue to be Collateral and any Infoprint Products supplied by any other legal entity thereafter shall only form part of the Collateral from the date on which IBM Credit has established arrangements and entered into agreements acceptable to IBM Credit with such supplier and Loan Parties for the continued financing of Infoprint Products.

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

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

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

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

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

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

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

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

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

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

IBM Credit LLC

By: ____________________________
Print Name: ____________________
Title: ____________________

Supplies Distributors, Inc.

By: ____________________________
Print Name: ____________________
Title: ____________________

Business Supplies Distributors Holdings, LLC

By: ________ as Managing Member

By: ____________________________
Print Name: ____________________
Title: ____________________

Priority Fulfillment Services, Inc.

By: ____________________________
Print Name: ____________________
Title: ____________________

PFSweb, Inc.

By: ____________________________
Print Name: ____________________
Title: ____________________

AMENDMENT 9
TO
AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)

This Amendment 9 (“Amendment”) dated March 30, 2009 is made to the **AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)** by and among **IBM BELGIUM FINANCIAL SERVICES S.A**., with a registered number of R.C. Brussels 451.673 with an address of Avenue du Bourget 42, BE- 1130 Brussels VAT BE 424300467 (**“IBM GF”** or **“us”**), **Suppliers Distributors S.A.** with a registered number of RC Liege 208795 with an address of Rue Louis Blériot 5, B-4460 Gráce-Hollogne, Belgium **(“SDSA” or “you”),** and **PFS Web B.V**. **SPRL** a company registered in The Netherlands, having the statutory seat in Amsterdam under the number 17109541, and having the administration and direction seat in Grace Hollogne, with a Belgian trade registration number of R.C. Liege 204162, VAT BE 466681054 **(“PFS Web B.V. ”)** (SDSA and PFS Web B.V. collectively, the **“Loan Parties”**)

RECITALS:

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

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

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

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

AGREEMENT

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

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

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

A. The Agreement is hereby amended as follows:

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

“Termination Date”: means April 1, 2010 or such other date as to which IBM GF and the Loan Parties may agree from time to time.

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

“ **Financial Covenants**

You agree to comply with the Financial Covenants, if any, set out in the relevant supplements or the Schedule. You also agree that you will not, without our consent, make any of the following payments (“Restricted Payments”) without our prior written consent (i) declare or pay any dividend (other than dividends payable solely in common stock of SDSA and the aggregate amount of such dividends under this Agreement and the AIF does not cause you or Holdings to violate such Financial Covenants on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of SDSA or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of SDSA ; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations)), except as permitted by the Amended and Restated Notes Payable Subordination Agreement. However, as long as you are not in violation with any such Financial Covenants prior to or subsequent to the following transactions, (i) SDSA may pay cash dividends in an amount not to exceed 100% of its prior year earnings, to Supplies Distributors, Inc. in calendar year 2009.”

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

Credit Line:€16,000,000

VAT Receivables: Included in Collateral Valuation

Prepayment Percentage: (i) 80% of Eligible Infoprint or IBM Reimbursables (1), (ii) 80% of Eligible Infoprint or IBM Receivables and (iii) 80% of Eligible VAT Receivables.

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

FINANCIAL COVENANTS

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

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

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

	Covenant	Covenant Requirement	Date as of
(i)	Minimum Tangible Net Worth	$18,000,000.00	03/31/09 and beyond

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

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

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

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

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

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

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

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

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

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

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

IBM BELGIUM FINANCIAL SERVICES S.A.

By: ____________________
Print Name: ____________________
Title: ____________________

SUPPLIERS DISTRIBUTORS S.A.

By: ____________________
Print Name: ____________________
Title: ____________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: ____________________
Print Name: ____________________
Title: ____________________

PFS WEB B.V. SPRL

By: ____________________
Print Name: ____________________
Title: ____________________

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

SUPPLIES DISTRIBUTORS, INC.

By: ______________________________
Print Name: ________________________
Title: ____________________________

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________
Print Name: ________________________
Title: ____________________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: ______________________________
Print Name: ________________________
Title: ____________________________

Agreement for IBM Global Financing Platinum Plan

Invoice Discounting Schedule

Supplies Distributors S.A.

Your Name	Supplies Distributors S.A.	**Schedule Number**	9
Your Number	SDSA — RC Liege 208795	**Effective date of Schedule**	30 March 2009
Credit Limit	€16,000,000	**Commencement Date**	27 September 2001
No Charge Period	IBM 45 days	**Prepayment Percentage**	(i) 80% of Eligible IBM and InfoPrint Solution Company Reimbursables (1) (ii) 80% of Eligible IBM and InfoPrint Solution Company Receivables (iii) 80% of Eligible VAT Receivables

Collateral Value of Stock-in-Trade

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

FINANCE CHARGES (2)		REPORTING	
Base Rate (3)	EURIBOR	**Audited Accounts (4)**	90 days after fiscal year
Discount Charge (5)	Base Rate plus 1.94%	**Management (unaudited) Accounts**	35 days after fiscal calendar quarter
Default Rate	Base Rate plus 7%	**Collateral Management Report**	10 days after calendar month
Shortfall Fee	0.30% of Shortfall Amount	**Aged Creditor Report**	10 days after calendar month
Banking Transfer Charge	Nil	**Stock Report**	10 days after calendar month
Service Fee per Notification	N/A	**Fixed Asset Register**	10 days after calendar month
Monthly Service Fee, Set up Fee	€1,500 plus VAT per month	**Surveys**	Once a year
Survey Fee	€5,000 plus VAT per IBM GF Survey	**Financial Covenant Compliance Certificate from both SDSA and Holdings**	45 days after fiscal period
Security Filing Fee	Any fees required as a result of Uniform Commercial Code filings in US in connection with Collateralised Guarantees granted by SDI, Holdings and PFS	**Extended Credit Period**	in 10 day increments up to 30 days
Unused Line Fee	Equal to thirty seven and one half (37.5) basis points times the weekly average unused portion of the Credit Line, accruable from the closing date and computed on the basis of a 360-day year, payable quarterly in arrears and upon the maturity or termination of the Credit Line	**VAT Receivables report with supporting documentation (including breakdown of calculations of VAT due and deductible)**	20 days after calendar month
Extended Credit Charge	Base Rate plus 4.25%		

ADDITIONAL COLLATERAL

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

OTHER CONDITIONS

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

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

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

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

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

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

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

FINANCIAL COVENANTS

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

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

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

	Covenant	Covenant Requirement
(v)	Tangible Net Worth	Greater than $18,000,000.00 for period ending 03/31/09 and beyond.

FINANCIAL COVENANT DEFINITIONS

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

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

“Current” shall mean within the ongoing twelve-month period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Addresses

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

(i) if to IBM GF:

IBM Belgium Financial Services S.A.
Avenue du Bourget 42
B-1130 Brussels
Belgium
VAT BE 424300467

(ii) if to SDSA:

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

(iii) if to PFS Web B.V.

PFS Web B.V. SPRL
c/o SDSA

Footnotes:

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

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

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

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

Signed on behalf of

SUPPLIES DISTRIBUTORS S.A.

TVA BE 475.286.142

Signed: ______________________________

By Name: ______________________________

Title: ______________________________

Signature: ______________________________

Date: ______________________________

Signed on behalf of

IBM BELGIUM FINANCIAL SERVICES S.A.

TVA BE 424.300.467

Signed: ______________________________

By Name: ______________________________

Title: ______________________________

Signature: ______________________________

Date: ______________________________

PFS WEB B.V. SPRL

Signed: ______________________________

By Name: ______________________________

Title: ______________________________

Signature: ______________________________

Date: ______________________________

SEVENTH AMENDMENT TO FIRST AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

THIS SEVENTH AMENDMENT TO FIRST AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (herein called this “Amendment”) made as of the 31st day of March, 2009 by and between Priority Fulfillment Services, Inc. (“Borrower”) and Comerica Bank (“Bank”),

WITNESSETH:

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

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

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

ARTICLE I.

Definitions and References

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

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

“Amendment” means this Seventh Amendment to First Amended and Restated Loan and Security Agreement.

“Loan Agreement” means the Original Agreement as amended hereby.

ARTICLE II.

Amendments to Original Agreement

§ 2.1 Defined Terms.

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

"Revolving Maturity Date" means March 31, 2010.

(b) The definition of "Inflow Transfer" in Exhibit A to the Original Agreement is hereby amended in its entirety to read as follows:

"Inflow Transfer" means the receipt by Borrower of cash payments after March 31, 2009, which are dividend payments or subordinated debt payments from BSD Holdings, Inc., dividend payments or interest payments from SPRL PFSweb B.V, or other cash payments made to Borrower by a Subsidiary or Affiliate, excluding payments made in the ordinary course of business.

(c) Clause (c) of the definition of "Permitted Indebtedness" in Exhibit A to the Original Agreement is hereby amended in its entirety to read as follows:

(c) Indebtedness secured by a lien described in clause (c) of the defined term "Permitted Liens", provided (i) such Indebtedness does not exceed the lesser of the cost or fair market value at acquisition date of the equipment financed with such Indebtedness and (ii) the aggregate amount of such Indebtedness incurred in each fiscal year of Borrower shall not exceed $4,000,000.

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

"Permitted Distribution" means any cash dividend or cash distribution by Borrower to any entity that is an Affiliate of Borrower, provided that such cash dividend or cash distribution is made from Inflow Transfer received by Borrower after March 31, 2009, in excess of $5,175,000.

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

(e) Advances by Borrower to Supplies Distributor, Inc. pursuant to the Subordinated Demand Note, so long as (1) the aggregate outstanding principal amount of such Indebtedness does not exceed $6,500,000 (excluding accrued and unpaid interest) at any time, and (2) before and after giving effect to such advances no Event of Default has occurred and is continuing;

(f) Incremental cash Investments by Borrower in or cash advances to SPRL PFSweb B.V., Priority Fulfillment Services of Canada, Inc., eCOST Philippine Services LLC, PFSM, LLC and eCOST.com, not to exceed $150,000, provided that (1) the aggregate amount of all Inflow Transfers after March 30, 2009 and prior to April 30, 2009 equals or exceeds $500,000, and (2) at the time of each such incremental cash Investment and after giving effect thereto, no Event of Default has occurred and is continuing.

(g) Investments which constitute Permitted Distributions, provided that before and after giving effect to each such Investment, no Event of Default has occurred and is continuing.

§ 2.2 Interest Rates and Payments. Section 2.3 of the Original Agreement is hereby amended in its entirety to read as follows:

§ 2.3 Interest Rates, Payments and Calculations. Interest shall accrue on the Advances and shall be payable as set forth in the Prime References Rate Addendum to Loan and Security Agreement attached hereto and made a part hereof.

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

(a) Facility Fee. A facility fee in the aggregate amount of $50,000 to be paid on April 1, 2009.

§ 2.4 Financial Statements.

(a) The due date for the financial statements due for the calendar month of January 2009 under Section 6.2(a) of the Original Agreement is hereby extended to March 31, 2009.

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

(j) within 30 days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer, together with aged listings by invoice date of accounts receivable and accounts payable; provided that if the average outstanding amount of Advances during any fiscal quarter of Borrower exceeds forty percent (40%) of the Committed Revolving Line then in effect, Borrower shall deliver its Borrowing Base Certificate on a semi-monthly basis during the immediately following fiscal quarter, such certificates being due within 15 days and 30 days after the last day of each month during such fiscal quarter;

(b) Section 6.2 of the Original Agreement is hereby amended to add the following clause (u) thereto:

(u) as soon as available, but in any event within 30 days after the end of each calendar month, a preliminary company prepared income statement of Borrower for such calendar month.

§ 2.5 Financial Covenants.

(a) Section 6.7(a) of the Original Agreement is hereby amended in its entirety to read as follows:

(a) Liquidity Ratio. A ratio of (i) Cash (including all pledged Cash with Bank for repayment of the Bonds) plus Eligible Accounts to (ii) all Indebtedness to Bank of at least 1.25 to 1.00.

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

(d) EBITDA. As of the last day of each calendar month, the variance, if negative, then expressed as a positive number, between Borrower's EBITDA and the EBITDA set forth in the Approved Projections for the twelve (12) calendar month period ending on such date, shall not exceed $350,000. As used herein, "EBITDA" shall mean, for any period of calculation, Borrower's earnings for such period before interest and taxes plus depreciation, amortization and non-cash stock compensation accruals to the extent deducted in the calculation of such earnings. "Approved Projections" means for any period of time, the projections for such period that have been reviewed by Borrower's Board of Directors and delivered to Bank. Borrower shall deliver to Bank (i) a preliminary draft of the projections for the next fiscal year of Borrower by January 31 of each year and (ii) the updated projections reviewed by Borrower's Board of Directors for the next fiscal year not later than March 10 of each year.

§ 2.6 Affirmative Covenants. The following Section 6.12 is hereby added to the Original Agreement:

6.12 Inflow Transfers. Borrower shall receive not less than $5,175,000 in aggregate Inflow Transfers during the period beginning March 31, 2009 and ending on July 2, 2009.

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

7.12 Capital Expenditures. Make capital expenditures in an aggregate amount greater than $4,000,000 in each fiscal year of Borrower, provided that the aggregate amount of such expenditures purchased with cash (and not financed) shall not exceed

$650,000; provided further, that any capital expenditures made by Borrower exclusively from the proceeds of Permitted Distributions shall not be subject to the foregoing limitations. As used herein, the term “capital expenditures” does not include (i) any software that is internally developed by Borrower, whether or not Borrower capitalized the development costs, and (ii) any equipment ordered, but not yet accepted or paid for, by Borrower.

§ 2.8 Exhibits. The Original Agreement is hereby amended to add the Prime Referenced Rate Addendum to Loan and Security Agreement thereto in the form attached hereto.

ARTICLE III.

Conditions of Effectiveness

§ 3.1 Effective Date. This Amendment shall become effective as of the date first above written when and only when Bank shall have received, at Bank’s office, a counterpart of this Amendment executed and delivered by Borrower.

ARTICLE IV.

Representations and Warranties

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

(a) The representations and warranties contained in Article 5 of the Original Agreement are true and correct at and as of the time of the effectiveness hereof.

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

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

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

ARTICLE V.

Miscellaneous

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

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

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

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

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

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

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

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________

Name:

Title:

COMERICA BANK

By: ______________________________

Name:

Title:

CONSENT AND AGREEMENT

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

PFSWEB, INC.

By: ______________________________

Name:

Title:

Prime Referenced Rate Addendum To
Loan and Security Agreement

This Prime Referenced Rate Addendum to Loan and Security Agreement (this “Addendum”) is entered into as of March ___, 2009, by and between Comerica Bank (“Bank”) and Priority Fulfillment Services, Inc. (“Borrower”). This Addendum supplements the terms of the First Amended and Restated Loan and Security Agreement dated as of December 29, 2004 (as the same may be amended, modified, supplemented, extended or restated from time to time, collectively, the “Agreement”).

1. Definitions. As used in this Addendum, the following terms shall have the following meanings. Initially capitalized terms used and not defined in this Addendum shall have the meanings ascribed thereto in the Agreement.

a. “Applicable Margin” means two percent (2.00%) per annum.

b. “Business Day” means any day, other than a Saturday, Sunday or any other day designated as a holiday under Federal or applicable State statute or regulation, on which Bank is open for all or substantially all of its domestic and international business (including dealings in foreign exchange) in San Jose, California, and, in respect of notices and determinations relating the Daily Adjusting LIBOR Rate, also a day on which dealings in dollar deposits are also carried on in the London interbank market and on which banks are open for business in London, England.

c. “Daily Adjusting LIBOR Rate” means, for any day, a per annum interest rate which is equal to the quotient of the following:

(1) for any day, the per annum rate of interest determined on the basis of the rate for deposits in United States Dollars for a period equal to one (1) month appearing on Page BBAM of the Bloomberg Financial Markets Information Service as of 8:00 a.m. (California time) (or as soon thereafter as practical) on such day, or if such day is not a Business Day, on the immediately preceding Business Day. In the event that such rate does not appear on Page BBAM of the Bloomberg Financial Markets Information Service (or otherwise on such Service) on any day, the “Daily Adjusting LIBOR Rate” for such day shall be determined by reference to such other publicly available service for displaying eurodollar rates as may be reasonably selected by Bank, or in the absence of such other service, the “Daily Adjusting LIBOR Rate” for such day shall, instead, be determined based upon the average of the rates at which Bank is offered dollar deposits at or about 8:00 a.m. (California time) (or as soon thereafter as practical), on such day, or if such day is not a Business Day, on the immediately preceding Business Day, in the interbank eurodollar market in an amount comparable to the principal amount of the Obligations and for a period equal to one (1) month;

divided by

(2) 1.00 minus the maximum rate (expressed as a decimal) on such day at which Bank is required to maintain reserves on “Euro-currency Liabilities” as defined in and pursuant to Regulation D of the Board of Governors of the Federal Reserve System or, if such regulation or definition is modified, and as long as Bank is required to maintain reserves against a category of liabilities which includes eurodollar deposits or includes a category of assets which includes eurodollar loans, the rate at which such reserves are required to be maintained on such category.

d. “Prime Rate” means the per annum interest rate established by Bank as its prime rate for its borrowers, as such rate may vary from time to time, which rate is not necessarily the lowest rate on loans made by Bank at any such time.

e. “Prime Referenced Rate” means, for any day, a per annum interest rate which is equal to the Prime Rate in effect on such day, but in no event and at no time shall the Prime Referenced Rate be less than the sum of the Daily Adjusting LIBOR Rate for such day plus two and one-half percent (2.50%) per annum. If, at any time, Bank determines that it is unable to determine or ascertain the Daily Adjusting LIBOR Rate for any day, the Prime Referenced Rate for each such day shall be the Prime Rate in effect at such time, but not less than two and one-half percent (2.50%) per annum.

2. Interest Rate. Subject to the terms and conditions of this Addendum, the Obligations under the Agreement shall bear interest at the Prime Referenced Rate plus the Applicable Margin.

3. Payment of Interest. Accrued and unpaid interest on the unpaid balance of the Obligations outstanding under the Agreement shall be payable monthly, in arrears, on the 15th day of each month, until maturity (whether as stated herein, by acceleration, or otherwise). In the event that any payment under this Addendum becomes due and payable on any day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and, to the extent applicable, interest shall continue to accrue and be payable thereon during such extension at the rates set forth in this Addendum. Interest accruing hereunder shall be computed on the basis of a year of 360 days, and shall be assessed for the actual number of days elapsed, and in such computation, effect shall be given to any change in the applicable interest rate as a result of any change in the Prime Referenced Rate on the date of each such change.

4. <u>Bank's Records</u>. The amount and date of each advance under the Agreement, its applicable interest rate, and the amount and date of any repayment shall be noted on Bank's records, which records shall be conclusive evidence thereof, absent manifest error; <u>provided</u>, <u>however</u>, any failure by Bank to make any such notation, or any error in any such notation, shall not relieve Borrower of its obligations to repay Bank all amounts payable by Borrower to Bank under or pursuant to this Addendum and the Agreement, when due in accordance with the terms hereof.

5. <u>Default Interest Rate</u>. From and after the occurrence of any Event of Default, and so long as any such Event of Default remains unremedied or uncured thereafter, the Obligations outstanding under the Agreement shall bear interest at a per annum rate of five percent (5%) above the otherwise applicable interest rate hereunder, which interest shall be payable upon demand. In addition to the foregoing, a late payment charge equal to five percent (5%) of each late payment hereunder may be charged on any payment not received by Bank within ten (10) calendar days after the payment due date therefor, but acceptance of payment of any such charge shall not constitute a waiver of any Event of Default under the Agreement. In no event shall the interest payable under this Addendum and the Agreement at any time exceed the maximum rate permitted by law.

6. <u>Prepayment</u>. Borrower may prepay all or part of the outstanding balance of any Obligations at any time without premium or penalty. Any prepayment hereunder shall also be accompanied by the payment of all accrued and unpaid interest on the amount so prepaid. Borrower hereby acknowledges and agrees that the foregoing shall not, in any way whatsoever, limit, restrict, or otherwise affect Bank's right to make demand for payment of all or any part of the Obligations under the Agreement due on a demand basis in Bank's sole and absolute discretion.

7. <u>Regulatory Developments or Other Circumstances Relating to the Daily Adjusting LIBOR Rate</u>.

a. If the adoption after the date hereof, or any change after the date hereof in, any applicable law, rule or regulation (whether domestic or foreign) of any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Bank with any request or directive (whether or not having the force of law) made by any such authority, central bank or comparable agency after the date hereof: (a) shall subject Bank to any tax, duty or other charge with respect to this Addendum or any Obligations under the Agreement, or shall change the basis of taxation of payments to Bank of the principal of or interest under this Addendum or any other amounts due under this Addendum in respect thereof (except for changes in the rate of tax on the overall net income of Bank imposed by the jurisdiction in which Bank's principal executive office is located); or (b) shall impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by Bank, or shall impose on Bank or the foreign exchange and interbank markets any other condition affecting this Addendum or the Obligations hereunder; and the result of any of the foregoing is to increase the cost to Bank of maintaining any part of the Obligations hereunder or to reduce the amount of any sum received or receivable by Bank under this Addendum by an amount deemed by the Bank to be material, then Borrower shall pay to Bank, within fifteen (15) days of Borrower=s receipt of written notice from Bank demanding such compensation, such additional amount or amounts as will compensate Bank for such increased cost or reduction. A certificate of Bank, prepared in good faith and in reasonable detail by Bank and submitted by Bank to Borrower, setting forth the basis for determining such additional amount or amounts necessary to compensate Bank shall be conclusive and binding for all purposes, absent manifest error.

b. In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to Bank, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by Bank with any guideline, request or directive of any such authority (whether or not having the force of law), including any risk-based capital guidelines, affects or would affect the amount of capital required or expected to be maintained by Bank (or any corporation controlling Bank), and Bank determines that the amount of such capital is increased by or based upon the existence of any obligations of Bank hereunder or the maintaining of any Obligations hereunder, and such increase has the effect of reducing the rate of return on Bank's (or such controlling corporation's) capital as a consequence of such obligations or the maintaining of such Obligations hereunder to a level below that which Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy), then Borrower shall pay to Bank, within fifteen (15) days of Borrower's receipt of written notice from Bank demanding such compensation, additional amounts as are sufficient to compensate Bank (or such controlling corporation) for any increase in the amount of capital and reduced rate of return which Bank reasonably determines to be allocable to the existence of any obligations of the Bank hereunder or to maintaining any Obligations hereunder. A certificate of Bank as to the amount of such compensation, prepared in good faith and in reasonable detail by the Bank and submitted by Bank to the undersigned, shall be conclusive and binding for all purposes absent manifest error.

8. <u>Commitment Fee</u>. In consideration of Bank's commitment to make Advances, Borrower will pay to Bank a commitment fee determined on a daily basis by applying the per annum rate of 0.50% to the Unused Borrowing Base determined at the end of each day. The commitment fee shall be due and payable in arrears on the last day of each fiscal quarter and at the Revolving Maturity Date. The term "Unused Borrowing Base" means, at any time of determination, the Borrowing Base minus the aggregate amount of outstanding Advances and amounts outstanding under the Letter of Credit Sublimit

9. <u>Legal Effect</u>. Except as specifically modified hereby, all of the terms and conditions of the Agreement remain in full force and effect.

10. <u>Conflicts</u>. As to the matters specifically the subject of this Addendum, in the event of any conflict between this Addendum and the Agreement, the terms of this Addendum shall control.

IN WITNESS WHEREOF, the parties have agreed to the foregoing as of the date first set forth above.

COMERICA BANK

By: ______________________________
Name: ______________________________
Title: ______________________________

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________
Name: ______________________________
Title: ______________________________

PFSweb, Inc. 2009 Management Bonus Plan

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

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

WHEREAS, the Committee has determined it is in the best interests of the Company to adopt this 2008 Management Bonus Plan (the "Bonus Plan") to set forth the performance goals for the issuance of Performance-Based Cash Awards under the Plan for fiscal year 2009;

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

I. Purpose and Terms of the Bonus Plan:

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

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

C. As used herein, the following terms have the following meaning.

"Excess EBITDA" means, for any quarter, the amount by which the EBITDA for such quarter exceeded the budgeted EBITDA for such quarter.

"Cumulative Recapture Pool" means, as of any date, (i) $50,000 for each completed Eligible Quarter prior to such date, minus (ii) the aggregate amount of awards issued under this Bonus Plan as of such date.

"Eligible Quarter" means a fiscal quarter in which the EBITDA for such quarter was not less than eighty percent (80%) of the budgeted EBITDA for such quarter.

D. Subject to the limitation set forth in II.A. below, the maximum aggregate amount to be awarded for any quarter shall be equal to the sum of the following: (i) the amount of Excess

EBITDA up to $50,000, plus (ii) if the Excess EBITDA exceeds $50,000, the amount of such excess, up to the Cumulative Recapture Pool, plus (iii) if the amount of Excess EBITDA exceeds the amounts determined under the preceding clauses (i) and (ii), an amount equal to ten percent (10%) of such excess.

II. Determination of Performance-Based Cash Awards:

A. The cumulative total bonus amount (the "Bonus Pool Amount") under clauses (i) and (ii) of Section I.D. above for fiscal year 2009 shall be $200,000.

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

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

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

IN WITNESS WHEREOF, the undersigned, being all the members of the Committee, have adopted and authorized the foregoing as of the 20th day of April, 2009.

____
James Reilly

____
Timothy Murray

EXHIBIT 31.1

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

I, Mark Layton, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2009

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

EXHIBIT 31.2

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

I, Tom Madden, certify that:

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2009

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

EXHIBIT 32.1

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

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

The Quarterly Report on Form 10-Q for the period ended March 31, 2009 (the “Form 10-Q”) of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

May 15, 2009	/s/ Mark C. Layton Mark C. Layton Chief Executive Officer
May 15, 2009	/s/ Thomas J. Madden Thomas J. Madden Chief Financial Officer

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

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