

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, 2011

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-28275

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

75-2837058

(I.R.S. Employer I.D. No.)

500 North Central Expressway, Plano, Texas

(Address of principal executive offices)

75074

(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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a 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 No

At May 13, 2011 there were 12,646,229 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES
Form 10-Q
March 31, 2011
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PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements**

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	<u>March 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,830	\$ 18,430
Restricted cash	947	1,853
Accounts receivable, net of allowance for doubtful accounts of \$752 and \$754 at March 31, 2011 and December 31, 2010, respectively	41,336	41,438
Inventories, net of reserves of \$1,618 and \$1,561 at March 31, 2011 and December 31, 2010, respectively	32,511	35,161
Assets of discontinued operations	—	2,776
Other receivables	13,732	14,539
Prepaid expenses and other current assets	3,801	3,580
Total current assets	<u>111,157</u>	<u>117,777</u>
PROPERTY AND EQUIPMENT, net	9,432	9,124
ASSETS OF DISCONTINUED OPERATIONS	—	1,126
OTHER ASSETS	<u>2,080</u>	<u>2,203</u>
Total assets	<u>\$ 122,669</u>	<u>\$ 130,230</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	\$ 20,404	\$ 18,320
Trade accounts payable	46,698	55,692
Deferred revenue	4,979	5,254
Accrued expenses	17,313	15,870
Total current liabilities	<u>89,394</u>	<u>95,136</u>
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	1,249	2,136
OTHER LIABILITIES	<u>3,991</u>	<u>3,608</u>
Total liabilities	<u>94,634</u>	<u>100,880</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.001 par value; 35,000,000 shares authorized; 12,299,243 and 12,255,064 shares issued at March 31, 2011 and December 31, 2010, respectively; and 12,280,882 and 12,236,703 outstanding at March 31, 2011 and December 31, 2010, respectively	12	12
Additional paid-in capital	101,602	101,229
Accumulated deficit	(75,615)	(73,332)
Accumulated other comprehensive income	2,121	1,526
Treasury stock at cost, 18,361 shares	(85)	(85)
Total shareholders' equity	<u>28,035</u>	<u>29,350</u>
Total liabilities and shareholders' equity	<u>\$ 122,669</u>	<u>\$ 130,230</u>

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

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	2011	2010
REVENUES:		
Product revenue, net	\$ 45,283	\$ 45,622
Service fee revenue	18,900	15,979
Pass-through revenue	8,206	6,634
Total revenues	<u>72,389</u>	<u>68,235</u>
COSTS OF REVENUES:		
Cost of product revenue	42,466	42,362
Cost of service fee revenue	13,783	11,454
Cost of pass-through revenue	8,206	6,634
Total costs of revenues	<u>64,455</u>	<u>60,450</u>
Gross profit	7,934	7,785
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation expense of \$310 and \$96 in the three months ended March 31, 2011 and 2010, respectively	9,288	8,608
Loss from operations	(1,354)	(823)
INTEREST EXPENSE, net	191	254
Loss from continuing operations before income taxes	(1,545)	(1,077)
INCOME TAX EXPENSE	135	126
LOSS FROM CONTINUING OPERATIONS	(1,680)	(1,203)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX	(603)	(6)
NET LOSS	<u>\$ (2,283)</u>	<u>\$ (1,209)</u>
LOSS PER SHARE FROM CONTINUING OPERATIONS:		
Basic and Diluted	<u>\$ (0.14)</u>	<u>\$ (0.12)</u>
LOSS PER SHARE INCLUDING DISCONTINUED OPERATIONS:		
Basic and Diluted	<u>\$ (0.19)</u>	<u>\$ (0.12)</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and Diluted	<u>12,268</u>	<u>9,936</u>

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,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,283)	\$ (1,209)
Loss from discontinued operations	(603)	(6)
Loss from continuing operations	(1,680)	(1,203)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,495	1,554
Provision for doubtful accounts	7	24
Provision for excess and obsolete inventory	3	22
Deferred income taxes	24	—
Stock-based compensation expense	310	96
Changes in operating assets and liabilities:		
Restricted cash	62	20
Accounts receivable	746	1,850
Inventories, net	3,550	2,710
Prepaid expenses, other receivables and other assets	1,127	314
Accounts payable, deferred revenue, accrued expenses and other liabilities	(9,179)	(4,545)
Net cash provided by (used in) continuing operating activities	(3,535)	842
Net cash provided by discontinued operating activities	1,311	355
Net cash provided by (used in) operating activities	(2,224)	1,197
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,360)	(886)
Proceeds from sale of eCOST subsidiary	2,327	—
Net cash provided by (used in) investing activities	967	(886)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	63	4
Decrease in restricted cash	844	781
Payments on capital lease obligations	(231)	(387)
Proceeds from (payments on) on debt, net	811	(213)
Net cash provided by financing activities	1,487	185
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	170	(217)
NET INCREASE IN CASH AND CASH EQUIVALENTS	400	279
CASH AND CASH EQUIVALENTS, beginning of period	18,430	14,812
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 18,830</u>	<u>\$ 15,091</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under debt and capital leases	<u>\$ 478</u>	<u>\$ 28</u>

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

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Consolidated Financial Statements

1. OVERVIEW AND BASIS OF PRESENTATION

PFSweb, Inc. and its subsidiaries are collectively referred to as the “Company;” “Supplies Distributors” refers to Supplies Distributors, Inc. and its subsidiaries; “Retail Connect” refers to PFSweb Retail Connect, Inc.; and “PFS” refers to Priority Fulfillment Services, Inc. and its subsidiaries and affiliates, excluding Supplies Distributors and Retail Connect. In connection with the sale of certain of the assets of eCOST.com, Inc. (“eCOST”) described below, the name of eCOST was changed to PFSweb Retail Connect, Inc. in March 2011.

PFS Overview

PFS is an international business process outsourcing provider of end-to-end eCommerce solutions to major brand name companies seeking to optimize their supply chain and to enhance their traditional and online business channels and initiatives in the United States, Canada, and Europe. PFS offers a broad range of service offerings that include digital marketing, eCommerce technologies, order management, customer care, logistics and fulfillment, financial management and professional consulting.

Supplies Distributors Overview

Supplies Distributors, PFS and InfoPrint Solutions Company (“IPS”), a wholly-owned subsidiary of RICOH Company Limited, 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 PFS and Supplies Distributors, PFS 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 PFS and Supplies Distributors were made in the context of a related party relationship and were negotiated in the overall context of PFS’ 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

Until February 2011 the Company operated eCOST as a multi-category online discount retailer of new, “close-out” and recertified brand-name merchandise, which sold products primarily to customers in the United States. In February 2011 the Company sold substantially all of the inventory and certain intangible assets of the eCOST business unit for a cash purchase price of \$2.3 million (before expenses of approximately \$0.2 million) and the assumption by the purchaser of certain limited liabilities of eCOST. The purchase price represented approximately \$1 million for inventory and the balance for the intangible assets. In connection with the closing of this business unit, the Company incurred exit costs of approximately \$0.3 million related to employee termination costs, excess property and equipment and certain contract termination costs and may incur additional costs, including excess facility costs. In December 2010, the Company recorded a non-cash goodwill impairment charge of approximately \$2.8 million as a result of this sale. For all periods presented, the Company has reported the operating results of the eCOST segment, excluding costs expected to continue to occur in the future, as discontinued

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Consolidated Financial Statements

operations. The remaining assets and business operations of eCOST will be conducted under the name PFSweb Retail Connect and will continue to provide certain services, primarily under a product ownership based model, to certain of the Company's client relationships on an ongoing basis.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of March 31, 2011, and for the three months ended March 31, 2011 and 2010, 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 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, 2011, its results of operations for the three months ended March 31, 2011 and 2010 and its cash flows for the three months ended March 31, 2011 and 2010. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 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 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

PFS has made advances to Supplies Distributors that are evidenced by a Subordinated Demand Note (the "Subordinated Note"). Under the terms of certain of the Company's debt facilities, the outstanding balance of the Subordinated Note cannot be increased to more than \$5.0 million or decreased to less than \$3.5 million without prior approval of the Company's lenders. At March 31, 2011 and December 31, 2010,

PFSweb, Inc. and Subsidiaries**Notes to Unaudited Interim Consolidated Financial Statements**

the outstanding balance of the Subordinated Note was \$4.3 million in both periods. The Subordinated Note is eliminated in the Company's consolidated financial statements.

PFS has also made advances to Retail Connect, which aggregated \$11.1 million as of both March 31, 2011 and December 31, 2010. Certain terms of the Company's debt facilities provide that the total advances to Retail Connect may not be less than \$2.0 million without prior approval of Retail Connect's lender, if needed. PFSweb, Inc. has also advanced to Retail Connect an additional \$7.4 million as of both March 31, 2011 and December 31, 2010.

Concentration of Business and Credit Risk

The Company's service fee revenue is generated under contractual service fee relationships with multiple client relationships. No service fee client or product revenue customer exceeded 10% of the Company's consolidated total net revenue or accounts receivable during the three months ended March 31, 2011. A summary of the nonaffiliated customer and client concentrations is as follows:

	Three Months Ended March 31,	
	2011	2010
Product Revenue (as a percentage of Product Revenue):		
Customer 1	15%	15%
Customer 2	11%	12%
Service Fee Revenue (as a percentage of Service Fee Revenue):		
Client 1	15%	2%
Client 2	5%	14%
Client 3	1%	14%
Accounts Receivable:		
Customer 2	7%	10%

PFS previously operated three distinct geographical contract arrangements with Client 3, which are aggregated in the service fee revenue percentages reflected above. As of March 31, 2011, substantially all of Client 3's contracts with PFS had expired in accordance with their terms and were not renewed.

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

Inventories

Inventories (all of which are finished goods) are stated at the lower of weighted average cost or market. 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.

PFSweb, Inc. and Subsidiaries**Notes to Unaudited Interim Consolidated Financial Statements**

Supplies Distributors assumes responsibility for slow-moving inventory under its IPS 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 PFS, Supplies Distributors and IPS terminate the master distributor agreements, the agreements provide for the parties to mutually agree on a plan of disposition of Supplies Distributors' then existing inventory.

Property and Equipment

The Company's property held under capital leases amounted to approximately \$1.8 million and \$1.5 million, net of accumulated amortization of approximately \$1.8 million and \$2.8 million, at March 31, 2011 and December 31, 2010, respectively.

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately \$0.2 million during each of the three month periods ended March 31, 2011 and 2010. Income taxes of approximately \$0.1 million were paid by the Company during both the three month periods ended March 31, 2011 and 2010.

3. COMPREHENSIVE LOSS (in thousands)

	Three Months Ended	
	March 31,	
	2011	2010
Net loss	\$ (2,283)	\$ (1,209)
Other comprehensive income (loss):		
Foreign currency translation adjustment	595	(628)
Comprehensive loss	<u>\$ (1,688)</u>	<u>\$ (1,837)</u>

4. NET LOSS PER COMMON SHARE

Basic and diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the reporting period. For the three months ended March 31, 2011 and 2010, outstanding options to purchase common shares of 2.7 million and 1.8 million, respectively, were anti-dilutive and have been excluded from the diluted weighted average share computation.

5. STOCK AND STOCK OPTIONS

In May 2010, the Company completed a public offering pursuant to which the Company issued and sold an aggregate of 2.3 million shares of common stock, par value \$.001 per share, at \$3.50 per share, resulting in net proceeds after deducting offering expenses of \$7.3 million.

During the three months ended March 31, 2011, the Company issued an aggregate of 600,000 options to purchase shares of common stock to officers and employees of the Company.

6. VENDOR FINANCING:

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

	March 31, 2011	December 31, 2010
Inventory and working capital financing agreements:		
United States	\$ 16,983	\$ 16,472
Europe	16,696	11,318
Total	<u>\$ 33,679</u>	<u>\$ 27,790</u>

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Consolidated Financial Statements

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 \$25.0 million through its expiration in March 2012. As of March 31, 2011, Supplies Distributors had \$0.9 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 other direct or indirect Company subsidiaries), 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 guarantee of PFS and a Company parent guarantee. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$3.5 million and the Company is required to maintain 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, 2011). 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 \$22.7 million as of March 31, 2011) in inventory financing and cash advances based on eligible inventory and accounts receivable through its expiration in March 2012. As of March 31, 2011, Supplies Distributors' European subsidiaries had 2.0 million euros (approximately \$2.8 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 subsidiary to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including other direct or indirect Company subsidiaries), 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 PFS and a Company parent guarantee. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$3.5 million and the Company is required to maintain a minimum shareholders' equity of \$18.0 million. Borrowings under the credit facility accrue interest at Euribor plus 1.82% for cash advances, and, after a defined free financing period, at Euribor plus 4.1% for inventory financings. As of March 31, 2011, the interest rate was 5.0% on the \$16.7 million of outstanding inventory financings. Supplies Distributors' European subsidiary pays a monthly service fee on the commitment. Given the structure of this facility and as outstanding inventory financing balances are repaid within twelve months, the Company has classified the outstanding inventory financing amounts under this facility as accounts payable in the consolidated balance sheets.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Consolidated Financial Statements

6. DEBT AND CAPITAL LEASE OBLIGATIONS;

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

	March 31, 2011	December 31, 2010
Loan and security agreements, United States Supplies Distributors	\$ 8,788	\$ 7,220
PFS	6,500	6,000
Credit facility — Retail Connect	—	—
Factoring agreement, Europe	2,376	2,302
Taxable revenue bonds	800	1,600
Master lease agreements	2,583	2,660
Other	606	674
Total	21,653	20,456
Less current portion of long-term debt	20,404	18,320
Long-term debt, less current portion	<u>\$ 1,249</u>	<u>\$ 2,136</u>

Loan and Security Agreement — Supplies Distributors

Supplies Distributors has a loan and security agreement with Wells Fargo Bank, National Association (“Wells Fargo”) to provide financing for up to \$25 million of eligible accounts receivable in the United States and Canada. As of March 31, 2011, Supplies Distributors had \$1.2 million of available credit under this agreement. The Wells Fargo facility expires on the earlier of March 2014 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 Wells Fargo facility accrue interest at prime rate plus 0.25% to 0.75% (3.75% as of March 31, 2011) or Eurodollar rate plus 2.5% to 3.0%, dependent on excess availability and subject to a minimum of 3.0%, as defined. The interest rate as of March 31, 2011 was 3.75% for \$7.8 million of outstanding borrowings and 3.0% for \$1.0 million of outstanding borrowings. This agreement contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including other direct or indirect Company subsidiaries), 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 guarantee of PFS and a Company parent guarantee. Additionally, PFS is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than \$3.5 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 Wells Fargo pursuant to which a security interest was granted to Wells Fargo for all U.S. and Canadian customer remittances received in specified bank accounts. At March 31, 2011 and December 31, 2010, these bank accounts held \$0.7 million and \$0.8 million, respectively, which was restricted for payment to Wells Fargo.

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 September 2012. The Comerica Agreement also allows for up to \$12.5 million of eligible accounts receivable financing during certain seasonal peak months. As of March 31, 2011, PFS had \$3.4 million of available credit under this facility. Borrowings under the Comerica Agreement accrue interest at a defined rate, which will generally be prime rate plus 2%, with a minimum of 4.5% (5.25% at March 31, 2011). 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 other direct or indirect Company subsidiaries), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of \$20 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement restricts the amount of the Subordinated Note receivable from Supplies Distributors to a maximum of \$5.0 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, if needed. The Comerica Agreement is secured by all of the assets of PFS, as well as a Company parent guarantee.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Consolidated Financial Statements

Credit Facility — Retail Connect

Retail Connect has an asset-based line of credit facility of up to \$7.5 million from Wachovia Bank, N.A. (“Wachovia”), through May 2011, which is collateralized by substantially all of Retail Connect’s assets. Borrowings under the facility are limited to a percentage of eligible accounts receivable and inventory up to a specified amount. Outstanding borrowings under the facility bear interest at rates ranging from prime rate plus 0.75% to 1.25% or Eurodollar rate plus 3.0% to 4.0%, depending on Retail Connect’s financial results. There were no outstanding borrowings as of March 31, 2011. As of March 31, 2011, Retail Connect had \$0.1 million of letters of credit outstanding and \$0.1 million of available credit under this facility. Subsequent to the sale of certain assets in February 2011, amounts available under the outstanding letters of credit are secured by restricted cash in equivalent amounts until expiration. In connection with the line of credit, Retail Connect entered into a cash management arrangement whereby Retail Connect’s operating amounts are considered restricted and swept and used to repay outstanding amounts under the line of credit, if any. As of March 31, 2011 and December 31, 2010, the restricted cash amount was \$0.1 million and \$0.2 million, respectively. The credit facility restricts Retail Connect’s ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties (including other direct or indirect Company subsidiaries), make investments and loans, pledge assets, make changes to capital stock ownership structure, and requires a minimum tangible net worth for Retail Connect of \$0 million, as defined. The Company has guaranteed all current and future obligations of Retail Connect under this line of credit.

Factoring Agreement

Supplies Distributors’ European subsidiary had a factoring agreement with Fortis Commercial Finance N.V. (“Fortis”) that provided factoring for up to 7.5 million euros (approximately \$10.7 million as of March 31, 2011) of eligible accounts receivables through March 2011. This factoring agreement was accounted for as a secured borrowing. Borrowings accrued interest at Euribor plus 1.2% (2.1% at March 31, 2011). This agreement contained 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 was secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

Supplies Distributors’ European subsidiary has entered into a new factoring agreement with BNP Paribas Fortis effective April 1, 2011 that provides factoring for up to 7.5 million euros (approximately \$10.7 million as of March 31, 2011) of eligible accounts receivables through April 1, 2014 as well as certain financial covenants, including minimum tangible net worth. Borrowings under the new agreement will accrue interest at Euribor plus 0.7%.

Taxable Revenue Bonds

PFS has a Loan Agreement with the Mississippi Business Finance Corporation (the “MBFC”) in connection with the issuance by the MBFC of MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the “Bonds”). The MBFC loaned the proceeds of the Bonds to PFS for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in one of the Company’s Southaven, Mississippi distribution facilities. The Bonds bear interest at a variable rate (0.4% as of March 31, 2011), as determined by Comerica Securities, as Remarketing Agent. PFS, at its option, may convert the Bonds to a fixed rate, to be determined by the Remarketing Agent at the time of conversion.

The primary source of repayment of the Bonds is a letter of credit (the “Letter of Credit”) issued by Comerica pursuant to a Reimbursement Agreement between PFS and Comerica under which PFS is obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has a maturity date of April 2012. The Bonds require final principal repayment of \$800,000 in January of 2012. PFS’ obligations under the Reimbursement Agreement are secured by substantially all of the assets of PFS and a Company parent guarantee.

PFSweb, Inc. and Subsidiaries**Notes to Unaudited Interim Consolidated Financial Statements****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, 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 guarantee. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. As of March 31, 2011, the Company was in compliance with all debt covenants.

Master Lease Agreements

The Company has a Term Lease Master Agreement with IBM Credit Corporation ("Master Lease Agreement") that provides for leasing or financing transactions of equipment and other assets, which generally have terms of three years. The amounts outstanding under this Master Lease Agreement (\$0.7 million as of March 31, 2011 and \$1.0 million as of December 31, 2010) are secured by the related equipment and a Company parent guarantee.

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, and in certain cases, by a Company parent guarantee.

7. SEGMENT INFORMATION

The Company is currently organized into two primary operating segments, which generally align with the corporate organization structure. In the first segment, PFS is an international provider of various business process outsourcing solutions and operates as a service fee business. In the second operating segment ("Business and Retail Connect"), subsidiaries of the Company purchase inventory from clients and resell the inventory to client customers. In this segment, the Company generally recognizes product revenue.

	Three Months Ended	
	March 31,	
	2011	2010
Revenues (in thousands):		
PFS	\$ 28,770	\$ 24,316
Business and Retail Connect	45,283	45,622
Eliminations	(1,664)	(1,703)
	<u>\$ 72,389</u>	<u>\$ 68,235</u>
Income (loss) from continuing operations (in thousands):		
PFS	\$ (1,919)	\$ (1,636)
Business and Retail Connect	239	433
Eliminations	—	—
	<u>\$ (1,680)</u>	<u>\$ (1,203)</u>
Depreciation and amortization (in thousands):		
PFS	\$ 1,488	\$ 1,546
Business and Retail Connect	7	8

PFSweb, Inc. and Subsidiaries**Notes to Unaudited Interim Consolidated Financial Statements**

	Three Months Ended March 31,	
	2011	2010
Eliminations	—	—
	<u>\$ 1,495</u>	<u>\$ 1,554</u>
Capital expenditures (in thousands):		
PFS	\$ 1,357	\$ 876
Business and Retail Connect	3	10
Eliminations	—	—
	<u>\$ 1,360</u>	<u>\$ 886</u>
	<u>March 31,</u>	<u>December 31,</u>
	<u>2011</u>	<u>2010</u>
Assets (in thousands):		
PFS	\$ 62,668	\$ 62,617
Business and Retail Connect	75,292	82,175
Eliminations	(15,291)	(14,562)
	<u>\$ 122,669</u>	<u>\$ 130,230</u>

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 disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against the Company and the timing of the related payments has not been finalized. As of March 31, 2011, the Company believes it has adequately accrued for the expected assessment.

In April 2010, a sales employee of eCOST was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately \$620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. The Company received subpoenas from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and the Company has responded to the subpoenas and is fully cooperating with the Office of the U.S. Attorney. The Company has commenced its own investigation into the actions of the employee. Neither the Company nor eCOST have been charged with any criminal activity, and the Company intends to seek the recovery or reimbursement of the funds which are currently classified as other receivables in the March 31, 2011 financial statements. Based on the information available to date, the Company is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of the Company to recover such funds or any significant portion thereof, or any costs and expenses incurred by the Company in connection with this matter will not have a material adverse effect upon the Company's financial condition or results of operations.

The Company is subject to claims in the ordinary course of business, including claims of alleged infringement by the Company or its subsidiaries of the patents, trademarks and other intellectual property rights of third parties. PFS is generally required to indemnify its service fee clients against any third party claims alleging infringement by PFS of the patents, trademarks and other intellectual property rights of third parties.

9. DISCONTINUED OPERATIONS

In February 2011, the Company sold certain assets of eCOST to a third party for a total aggregate cash purchase price of approximately \$2.3 million (before expenses of approximately \$0.2 million). Accordingly, the accompanying consolidated financial statements reflect the related operating results of the eCOST segment as discontinued operations for all periods presented.

Summarized financial information in the accompanying consolidated statements of operations for the

PFSweb, Inc. and Subsidiaries**Notes to Unaudited Interim Consolidated Financial Statements**

discontinued eCOST operations is as follows (in thousands):

	Three Months Ended	
	March 31,	
	2011	2010
Product revenue, net	\$ 6,725	\$ 20,025
Expenses	7,319	20,030
Income (loss) before provision for income taxes	(594)	(5)
Provision for income taxes	(9)	(1)
Discontinued operations, net of income taxes	\$ (603)	\$ (6)

Summarized financial information in the accompanying consolidated balance sheet for the discontinued eCOST operations, which were sold in February 2011, is as follows (in thousands):

	December 31, 2010
Inventories, net	\$ 2,776
Identifiable intangibles	316
Goodwill	810
Assets of discontinued operations	\$ 3,902

At December 31, 2010, the amount of allowance for slow moving inventory included in discontinued operations was \$0.2 million.

The original eCOST acquisition resulted in a purchase price in excess of the fair value of net identifiable assets acquired and liabilities assumed. This excess purchase price was allocated to goodwill. Goodwill, which is not deductible for tax purposes, is not amortized yet is subject to an annual impairment test, using a fair-value-based approach. The remaining balance of goodwill, \$0.8 million as of December 31, 2010, was included in assets of discontinued operations.

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

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

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2010, 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");
- our dependence upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- trends in e-commerce, outsourcing, government regulation both foreign and domestic and the market for our services;
- whether we can continue and manage growth;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- the reliance on third-party subcontracted services;
- the unknown effects of possible system failures and rapid changes in technology;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency on key personnel;
- the impact of new accounting standards, and changes in existing accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing;
- our ability and the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants;
- relationship with and our guarantees of certain of the liabilities and indebtedness of our subsidiaries; and
- taxation on the sale of our products.

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

Overview

We are an international business process outsourcing provider of end-to-end eCommerce solutions. We provide these solutions to major brand name companies seeking to optimize their supply chain and to enhance their traditional and online business channels and initiatives. We derive our revenues from providing a broad range of services as we process individual business transactions on our clients' behalf using three different seller services financial models: 1) the Enablement model, 2) the Agent (or Flash) model and 3) the Retail model.

We refer to the standard PFS seller services financial model as the Enablement model. In this model, our clients own the inventory and are the merchants of record and engage us to provide various business outsourcing services in support of their business operations. We derive our service fee revenues from a broad range of service offerings that include digital marketing, eCommerce technologies, order management, customer care, logistics and fulfillment, financial management and professional consulting. 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 we lease or manage. We currently 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, consumer electronics and consumer packaged goods, among others.

In this model, we typically charge for our services 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 costs and other 'out-of-pocket' expenses include travel, shipping and handling costs and telecommunication charges and are included in pass-through revenue.

As an additional service, we offer our second model, the Agent, or Flash, financial model, in which our clients maintain ownership of the product inventory stored at our locations as in the Enablement model. When a customer orders the product from our clients, a "flash" sale transaction passes product ownership to us for each order and we, in turn, immediately re-sell the product to the customer. The "flash" ownership exchange establishes us as the merchant of record, which enables us to use our existing merchant infrastructure to process sales to end customers, removing the need for the clients to establish these business processes internally, but permitting them to control the sales process to end customers. In this model, we record product revenue either on a gross or net basis depending on the underlying contract terms.

Finally, our Retail model allows us to purchase inventory from the client just as any other client reseller partner. In this model, we place the initial and replenishment purchase orders with the client and take ownership of the product upon delivery to our facility. Consequently, in this model, we generate product revenue as we own the inventory and the accounts receivable arising from our product sales. Under the Retail model, depending upon the product category and sales characteristics, we may require the client to provide product price protection as well as product purchase payment terms, right of return, and obsolescence protection appropriate to the product sales profile. In this model we recognize product revenue for customer sales. Freight costs billed to customers are reflected as components of product revenue. This business model requires significant working capital requirements, for which we have credit available either through credit terms provided by our client or under senior credit facilities.

In general, we provide the Enablement model through our PFS and Supplies Distributors subsidiaries, the Agent or Flash model through our PFS and Supplies Distributors subsidiaries and the Retail model through our Supplies

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Distributors subsidiaries and our Retail Connect subsidiary. In connection with the sale of certain of the assets of eCOST.com (“eCOST”), the name of eCOST was changed to PFSweb Retail Connect, Inc., in March 2011.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our Enablement and Agent models 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 Retail model is currently 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.

We continue to monitor and control our costs to focus on profitability. While we are targeting our new service fee contracts to yield incremental gross profit, we also expect to incur incremental investments in technology development, operational and support management and sales and marketing expenses.

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) selling, general and administrative 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.

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.

Selling, General and Administrative expenses — consist of expenses such as compensation and related expenses for sales and marketing staff, distribution costs (excluding freight) applicable to the Supplies Distributors business and the Retail model, 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 and our expenses 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. To aid this, in May 2010, we completed a public offering of 2.3 million shares of our common stock that provided net proceeds of \$7.3 million.

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Results of Operations

For the Interim Periods Ended March 31, 2011 and 2010

The results of operations related to the eCOST business unit that was sold in February 2011 have been reported as discontinued operations for both periods presented below. The following table discloses certain financial information for the periods presented, expressed in terms of dollars, dollar change, percentage change and as a percentage of total revenue (in millions):

			Change		% of Total Revenue	
	2011	2010	\$	%	2011	2010
Revenues:						
Product revenue, net	\$ 45.3	\$ 45.6	\$ (0.3)	(0.7)%	62.6%	66.9%
Service fee revenue	18.9	16.0	2.9	18.3%	26.1%	23.4%
Pass-through revenue	8.2	6.6	1.6	23.7%	11.3%	9.7%
Total net revenues	72.4	68.2	4.2	6.1%	100.0%	100.0%
Cost of Revenues						
Cost of product revenue	42.5	42.3	0.2	0.2%	93.8%(1)	92.9%
Cost of service fee revenue	13.8	11.5	2.3	20.3%	72.9%(2)	71.7%
Pass-through cost of revenue	8.2	6.6	1.6	25.7%	100.0%(3)	100.0%
Total cost of revenues	64.5	60.4	4.1	6.6%	89.0%	88.6%
Product revenue gross profit	2.8	3.3	(0.5)	(13.6)%	6.2%(1)	7.1%
Service fee gross profit	5.1	4.5	0.6	13.1%	27.1%(2)	28.3%
Pass-through gross profit	—	—	—	—	—	—
Total gross profit	7.9	7.8	0.1	1.9%	11.0%	11.4%
Selling, General and Administrative Expenses						
Expenses	9.3	8.6	0.7	7.9%	12.8%	12.6%
Loss from operations	(1.4)	(0.8)	(0.6)	64.5%	(1.8)%	(1.2)%
Interest expense, net	0.2	0.3	(0.1)	(24.8)%	0.3%	0.4%
Loss from continuing operations before income taxes	(1.6)	(1.1)	(0.5)	43.5%	(2.1)%	(1.6)%
Income tax expense, net	0.1	0.1	—	7.1%	0.2%	0.2%
Loss from continuing operations	(1.7)	(1.2)	(0.5)	39.7%	(2.3)%	(1.8)%
Income (loss) from discontinued operations, net of tax	(0.6)	—	(0.6)	(9,950.0)%	(0.9)%	—%
Net loss	\$ (2.3)	\$ (1.2)	\$ (1.1)	(88.8)%	(3.2)%	(1.8)%

(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. Product revenue of \$45.3 million in the three months ended March 31, 2011 decreased \$0.3 million or 0.7% as compared to the same quarter of the prior year. We currently expect our total 2011 annual product revenue to remain relatively stable as compared to 2010 levels.

Service Fee Revenue. Service fee revenue of \$18.9 million increased \$2.9 million, or 18.3%, in the three months ended March 31, 2011 as compared to the same quarter of the prior year. The increase in service fee revenue for the three months ended March 31, 2011 is primarily due to increased service fees from existing client relationships along with service fees from new client relationships that began in late 2010 and early 2011. The change in service fee revenue is shown below (\$ millions):

	Three Months
Period ended March 31, 2010	\$ 16.0
New service contract relationships	3.0
Change in existing client service fees	2.2
Terminated clients not included in 2011 revenue	(2.3)
Period ended March 31, 2011	<u>\$ 18.9</u>

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Cost of Product Revenue. The cost of product revenue increased by \$0.2 million, or 0.2%, to \$42.5 million in the three months ended March 31, 2011. The resulting gross profit margin was \$2.8 million, or 6.2% of product revenue, for the three months ended March 31, 2011 and \$3.3 million, or 7.1% of product revenue, for the comparable 2010 period. The primary reason for the decrease in gross profit margin is the impact of certain incremental gross margin earned on product sales in the three months ended March 31, 2010 that did not occur in 2011.

Cost of Service Fee Revenue. Gross profit as a percentage of service fees was 27.1% in three month period ended March 31, 2011 and 28.3% in the same period of 2010. The margin in the prior year period includes the benefit of certain higher margin incremental project work.

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.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the three months ended March 31, 2011 and 2010 were \$9.3 million and \$8.6 million, respectively. As a percentage of total net revenue, selling, general and administrative expenses were 12.8% in the three months ended March 31, 2011 and 12.6% in the prior year period. The increase in costs is primarily attributable to increased non-cash stock compensation expense, sales and marketing costs, personnel related expense as well as growth in technology related costs required to support current and future growth.

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

Income (Loss) from Discontinued Operations, Net of Tax. Discontinued operations generated a loss of approximately \$0.6 million and \$6,000 in the three months ended March 31, 2011 and 2010, respectively. In February 2011, we sold substantially all of the inventory and certain intangible assets applicable to our eCOST business unit for a total aggregate cash purchase price of approximately \$2.3 million. For both of the three month periods ending March 31, 2011 and 2010, we have classified the operating results of this business unit, excluding costs expected to continue to occur in the future, as discontinued operations.

Liquidity and Capital Resources

Net cash used in continuing operating activities was \$3.5 million for the three months ended March 31, 2011, and primarily resulted from a decrease of \$9.2 million in accounts payable, deferred revenue, accrued expenses and other liabilities partially offset by a \$3.6 million decrease in inventories, a decrease in prepaid expenses, other receivables and other assets of \$1.1 million and a decrease in accounts receivable of \$0.7 million. Net cash provided by discontinued operating activities was \$1.3 million in the three months ended March 31, 2011.

Net cash provided by continuing operating activities was \$0.8 million for the three months ended March 31, 2010, and primarily resulted from a decrease in inventories of \$2.7 million, a \$1.9 million decrease in accounts receivable and cash income before working capital changes of \$0.5 million partially offset by a \$4.5 million decrease in accounts payable, accrued expenses and other liabilities. Net cash provided by discontinued operating activities was \$0.4 million in the three months ended March 31, 2010.

Net cash provided by investing activities for the three months ended March 31, 2011 was \$1.0 million and consisted of proceeds of \$2.3 million related to the sale of our eCOST subsidiary in February 2011

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partially offset by a \$1.4 million use of cash resulting from capital expenditures.

Net cash used in investing activities for the three months ended March 31, 2010 was \$0.9 million resulting from capital expenditures.

Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, development of customized technology solutions to support and integrate with our service fee clients, and general expansion and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures to support new contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months, including costs to implement new clients, will be approximately \$6 million to \$9 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements, debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financing or achieve the financial results necessary to support such investments.

Net cash provided by financing activities was approximately \$1.5 million for the three months ended March 31, 2011, representing a decrease in restricted cash of \$0.8 million and net proceeds from debt of \$0.8 million partially offset by payments on capital lease obligations.

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

During the three months ended March 31, 2011, our working capital decreased to \$21.8 million from \$22.6 million at December 31, 2010 primarily due to paydown of debt facilities and a net loss from operations. 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. No assurances can be given we will be successful in obtaining any additional financing or the terms thereof. We currently believe our cash position, financing available under our credit facilities and funds generated from operations 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, if necessary, for at least the next twelve months.

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

In support of certain debt instruments and leases, as of March 31, 2011, we had \$0.9 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

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would be required to repay all amounts outstanding thereunder. In particular, 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 their working capital lines of credit. In such event, absent a waiver, the working capital lender would be entitled to accelerate all amounts outstanding thereunder and exercise all other rights and remedies, including sale of collateral and payment under our Company parent guarantee. 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, 2011, we were in compliance with all debt covenants. Further, any non-renewal of any of our credit facilities would have a material adverse impact on our business and financial condition. We do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

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

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 disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against us and the timing of the related payments has not been finalized. As of March 31, 2011, we believe we have adequately accrued for the expected assessment.

In April 2010, a sales employee of eCOST was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately \$620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. We received subpoenas from the Office of the U.S. Attorney requesting information regarding the employee and other matters, and have responded to such subpoenas and are fully cooperating with the Office of the U.S. Attorney. We have commenced our own investigation into the actions of the employee. Neither the Company nor eCOST have been charged with any criminal activity, and we intend to seek the recovery or reimbursement of the funds, which are currently classified as other receivables in the March 31, 2011 financial statements. Based on the information available to date, we are unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or our inability to recover such funds or any significant portion thereof, or any costs and expenses we may incur in connection with such matter will not have a material adverse effect upon our financial condition or results of operations.

Supplies Distributors Financing

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 guarantee to secure the repayment of these credit facilities. These asset-based credit facilities provided financing for up to \$25.0 million and up to 16 million euros (approximately \$22.7 million at March 31, 2011) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2012.

Supplies Distributors also has a loan and security agreement with Wells Fargo Bank, National Association (“Wells Fargo”) to provide financing for up to \$25 million of eligible accounts receivables in the United States and Canada. The Wells Fargo facility expires on the earlier of March 2014 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 had a factoring agreement with Fortis Commercial Finance

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N.V. (“Fortis”) to provide factoring for up to 7.5 million euros (approximately \$10.7 million as of March 31, 2011) of eligible accounts receivables through March 2011. The subsidiary has entered into a new factoring agreement with BNP Paribas Fortis effective April 1, 2011 to replace the previous factoring agreement and provide factoring for up to 7.5 million euros (approximately \$10.7 million as of March 31, 2011) of eligible accounts receivables under similar terms through April 1, 2014 as well as certain financial covenants, including minimum tangible net worth.

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 other direct or indirect Company subsidiaries), 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 guarantees by their respective parent companies including Supplies Distributors and/or PFS and a Company parent guarantee. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than \$3.5 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.

PFS Financing

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 September 2012. The Agreement allows for up to \$12.5 million of eligible accounts receivable financing during certain seasonal peak months. 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 other direct or indirect Company subsidiaries), 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 \$20.0 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Agreement also limits PFS’ ability to increase the subordinated loan to Supplies Distributors to more than \$5.0 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. The Agreement is secured by all of the assets of PFS, as well as a Company parent guarantee.

PFS financed certain capital expenditures through a Loan Agreement with the Mississippi Business Finance Corporation (the “MBFC”) pursuant to which the MBFC issued MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the “Bonds”). The MBFC loaned PFS the proceeds of the Bonds for the purpose of financing the acquisition and installation of equipment, machinery and related assets to support incremental business from a Southaven, Mississippi distribution facility. The primary source of repayment of the Bonds is a letter of credit (the “Letter of Credit”) issued by Comerica pursuant to a Reimbursement Agreement between 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 2012. The amount outstanding on this Loan Agreement as of March 31, 2011 was \$0.8 million, the payment of which is due in January 2012. PFS’ obligations under the Reimbursement Agreement are secured by substantially all of its assets, including restricted cash of \$0.1 million, and a Company parent guarantee.

Retail Connect Financing

Retail Connect has an asset-based line of credit facility of up to \$7.5 million with Wachovia Bank N.A. (“Wachovia”), which is collateralized by substantially all of Retail Connect’s assets and expires in May 2011. Borrowings under the facility are limited to a percentage of accounts receivable and inventory, up to specified maximums. As of March 31, 2011, Retail Connect had \$0.1 million of letters of credit

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outstanding and \$0.1 million of available credit under this facility. Amounts available under the outstanding letters of credit are currently secured by restricted cash in equivalent amounts. The credit facility restricts Retail Connect'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. The Company has guaranteed all current and future obligations of Retail Connect under this line of credit.

In February 2011, we sold substantially all of the inventory and certain intangible assets of eCOST for a cash purchase price of \$2.3 million (before expenses of approximately \$0.2 million) and the assumption by the purchases of certain limited liabilities of eCOST. In connection with the closing of this business unit, we incurred exit costs of approximately \$0.3 million related to employee termination costs, excess property and equipment and contract termination costs and may incur additional costs, including excess facility costs. During 2010, we recorded a non-cash goodwill impairment charge of approximately \$2.8 million.

Public Offering

In May 2010, we completed a public offering of our common stock pursuant to which we issued and sold an aggregate of 2.3 million shares of our common stock, par value \$.001 per share, at \$3.50 per share, resulting in net proceeds after deducting offering expenses of approximately \$7.3 million.

Seasonality

The seasonality of our service fee business is dependent upon the seasonality of our clients' business and sales of their products. Accordingly, we must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix and their current business volumes, our run rate service fee business activity will be at its lowest in the quarter ended March 31 and highest in the quarter ended December 31. We anticipate our product revenue will be highest during the quarter ended December 31. We believe our historical revenue pattern 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 is included in Note 2 of the consolidated financial statements in our December 31, 2010 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not required.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) or Rule 15-d-15(f) of the Exchange Act) during the three months ended March 31, 2011 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

In addition to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission on March 31, 2011, our business, financial condition and operating results could be adversely affected by any or all of the following factors.

General Risks Related to Our Business

Our business and future growth depend on our continued access to bank and commercial financing. An uncertain or recessed economy may negatively impact our business, results of operations, financial condition or liquidity.

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

Our business and future growth currently depend on our ability to access bank and commercial lines of credit. We currently depend on an aggregate of approximately \$103.2 million in line of credit facilities provided by various banks and commercial lenders. These lines of credit currently mature at various dates through March 2014 and are secured by substantially all our assets. Our ability to renew our line of credit facilities depends upon various factors, including the availability of bank loans and commercial credit in general, as well as our financial condition and prospects. Therefore, we cannot guarantee that these credit facilities will continue to be available beyond their current maturities on reasonable terms or at all. Our inability to renew or replace our credit facilities or find alternative financing would materially adversely affect our business, financial condition, operating results and cash flow.

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

As of March 31, 2011, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of IPS product inventory, was approximately \$55.3 million. Certain of the credit facilities have maturity dates in calendar year 2012 or beyond, but are classified as current liabilities in our consolidated financial statements given the underlying nature of the credit facility. We cannot provide assurance that our credit facilities will be renewed by the lending parties. Additionally, these credit facilities include both financial and non-financial covenants, many of which also include cross default provisions applicable to other agreements. These covenants also restrict our ability to transfer funds among our various subsidiaries, which may adversely affect the ability of our subsidiaries to operate their businesses or comply with their respective loan covenants. We cannot provide assurance that we will be able to maintain compliance with these covenants. Any non-renewal or any default under any of our credit facilities would have a material adverse impact upon our business and financial condition. In addition we have provided \$4.3 million of subordinated indebtedness to Supplies Distributors as of March 31, 2011. The maximum level of this subordinated indebtedness to Supplies Distributors that may be provided without approval from our lenders is \$5.0 million. The restrictions on increasing this amount without lender approval may limit our ability to comply with certain loan covenants or further grow and develop Supplies Distributors' business. We have guaranteed most of the indebtedness of Supplies Distributors. Furthermore, we are obligated to repay any over-advance made to Supplies

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Distributors by its lenders to the extent Supplies Distributors is unable to do so. We have also guaranteed Retail Connect's \$7.5 million credit line, as well as certain of its vendor trade payables.

Specific Risks Related to Our Business Process Outsourcing Business

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

For the three months ended March 31, 2011, three clients represented approximately 21% of our total service fee revenue (excluding pass-through revenue) and approximately 9% of our total consolidated revenue. For the three months ended March 31, 2010 these three clients represented approximately 29% of our total service fee revenue (excluding pass-through revenue) and approximately 10% of our total consolidated revenue. The loss of any one or more of these clients may have a material adverse effect upon our business and financial condition.

The majority 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's sales force and product demand generation activities for its sale of IPS product. Discontinuance of such activities would have a material adverse effect on Supplies Distributors' business and our overall financial condition.

Sales by Supplies Distributors to three customers in the aggregate accounted for approximately 30% and 40% of Supplies Distributors' total product revenue for the three months ended March 31, 2011 and 2010, respectively, (18% and 25% of our consolidated net revenues in the three month period ended March 31, 2011 and 2010, respectively). The loss of any one or all of such customers, or non-payment of any material amount by these or any other customer, would have a material adverse effect upon Supplies Distributors' business.

Risks Related to Our Stock

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

As of March 31, 2011, we have an aggregate of 2.7 million stock options outstanding to employees, directors and others with a weighted average exercise price of \$4.45 per share. The shares of common stock that may be issued upon exercise of these options may be resold into the public market. Sales of substantial amounts of common stock in the public market as a result of the exercise of these options, or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. [Removed and Reserved]

ITEM 5. Other Information

None

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
3.1(1)	Amended and Restated Certificate of Incorporation of PFSweb, Inc.

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<u>Exhibit No.</u>	<u>Description of Exhibits</u>
3.1.1(2)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.2(4)	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3(5)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2(1)	Amended and Restated By-Laws
3.2.1(3)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.2(6)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
10.1*	Factoring Agreement by and between BNP Paribus Fortis Factor and Supplies Distributors, S.A.
10.2*	Amendment 12 to Agreement for Inventory Financing.
10.3*	Amendment 11 to Amended and Restated Platinum Plan Agreement.
10.4*	Agreement for IBM Global Financing Platinum Plan Invoice Discounting Schedule.
10.5*	Ninth Amendment to First Amended and Restated Loan and Security Agreement by and between Comerica Bank and Priority Fulfillment Services, Inc.
10.6*	2011 Management Bonus Plan
10.7*	Seventh Amendment to Loan and Security Agreement dated January 6, 2009 between Wells Fargo Bank and Supplies Distributors, Inc.
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

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- (1) Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657).
- (2) Incorporated by reference from PFSweb, Inc. Form 10-K for the fiscal year ended December, 31, 2005 filed on March 31, 2006.
- (3) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on November 13, 2007.
- (4) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 2, 2008.
- (5) Incorporated by reference from PFSweb, Inc. Form 10-Q filed on August 14, 2009.
- (6) Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 2, 2010.
- * Filed Herewith

SIGNATURE

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

Date: May 16, 2011

PFSweb, Inc.

By: /s/ Thomas J. Madden

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



**FACTORING AGREEMENT
(Special Terms and Conditions)**

BETWEEN: **BNP Paribas Fortis Factor**, a public limited company under Belgian law, having its registered office at 3000 Leuven, Vital Decosterstraat 44, Register of Legal Entities of Leuven, company number 0819.568.044 (the “**Factor**”);

AND: **Supplies Distributors**, a public limited company under Belgian law, having its registered office at 4460 Grace-Hollogne, Rue Louis Blériot 5, Register of Legal Entities of Liège, company number 0475.286.142 (the “**Client**”);

The **Factor** and the **Client** are referred to collectively as the “**Parties**” and individually as a “**Party**”;

WHEREAS the Client wants to entrust the Factor with the following services:

- (a) Management and administration of the Client’s debtor portfolio;
- (b) Financing of the Client’s receivables;
- (c) Collection of the Client’s receivables;

WHEREAS the Factor is prepared to perform these services on behalf of the Client under the provisions of the present Agreement;

THE FOLLOWING IS AGREED:

All terms that commence with a capital letter shall have the meaning attached to them in the General Terms and Conditions, which constitute an integral part of the present Agreement.

1. Area of application

1.1. The Parties agree upon the following:

- the Client’s Usual Business Activity is understood to mean:
 - on its own behalf and on behalf of third parties, both in Belgium and abroad, the import, the export, the purchase and the sales of computer products and office supplies related to computer products, as well as the conclusion of distribution and agency agreements regarding the import, the export the purchase and the sales of these computer products and office supplies;
- the Agreed Countries are understood to mean:
 - all member states of the European Union, as well as Andorra, Bahrain, Cyprus, Egypt, French Polynesia, Israel, Kuwait, Oman, Qatar, South Africa, Switzerland, Turkey and the United Arab Emirates; however, the Parties agree that, at any moment in time, the total amount of Advance Financing granted with regards to Assigned Receivables on Debtors established in Andorra, Bahrain, Egypt, French Polynesia, Kuwait, Oman, Qatar and the United Arab Emirates, may never exceed seven percent (7%) of the total amount of Advance Financing.
- the Excluded Debtors are understood to mean:
 - International Business Machines Corporation (New Orchard Road, Armonk, New York, United States of America) and all its affiliated and associated companies;

2. Assignment

- 2.1. Contrary to the provisions of Article 3.5 of the General Terms and Conditions, the Invoices for the Agreed Countries indicated with an asterisk (*) in Article 1.1 of the present Special Terms and Conditions will be sent by the Factor.
- 2.2. The Invoices for the Agreed Countries not indicated with an asterisk (*) in Article 1.1 of the present Special Terms and Conditions will be sent by the Client in accordance with Article 3.5 of the General Terms and Conditions.

3. Financing

- 3.1. The Parties agree upon the following:
 - the Financing Percentage will amount to eighty percent (80%);
 - the Financing Limit will amount to seven point five million euro (€ 7,500,000.00);
 - the Concentration Limit will amount to fifteen percent (15%).
- 3.2. The Parties agree that the Client shall have to provide the following Securities:
not applicable;
- 3.3. The Parties agree that the actual Factorable Receivables of the Client, established in Invoices bearing a date previous to the Effective Date, do not qualify for Advance Financing unless the entire portfolio of unpaid Factorable Receivables of the Client, established in Invoices bearing a date previous to the Effective Date are, assigned to the Factor.

However, Factorable Receivables, established in Invoices bearing a date previous to the Effective Date, on national and international public debtors, do never qualify for Advance Financing.

Otherwise, the Advance Financing of Factorable Receivables, established in Invoices bearing a date previous to the Effective Date, is submitted to the terms and conditions of article 6 (Financing) of the General Terms and Conditions.

4. Fee

- 4.1. The Parties agree upon the following:
 - the Factoring Fee will amount to zero point zero three percent (0.03%) of the Assigned Receivables (inclusive of VAT);
 - the annually charged Minimum Factoring Fee will amount to five thousand one hundred euro (€ 5,100.00).
- 4.2. The Parties agree that the following Interest Rates will be charged:
 - In case of Advance Financing in the form of a cash-credit: zero point seventy percent (0.70%) a year on top of the EURIBOR (Euro Interbank Offered Rate) — one month rate; in case the aforementioned benchmarking-tariff (EURIBOR), due to any disruption of the interbank market, does not reflect the real cost of funding of the Factor anymore, the following Interest Rate shall be charged in case of Advance Financing in the form of a cash-credit: zero point seventy percent (0.70%) a year on top of the cost of funding;
increased by:
 - An overdraft commission, i.e. a fee of one percent (1%) on the highest overdraft amount in the Factoring Account (to be calculated every last day of the month).
- 4.3. The Parties agree that the following Costs will be charged:
 - Non-recurring start-up and registration costs amounting to six-hundred euro (€ 600.00), due upon signature of the present Agreement;

- Legal collection and assistant costs:
 - Costs of a visit to the Debtor: one hundred and fifty euro (€ 150.00) per visit to Belgian debtors and two hundred and twenty five euro (€ 225.00) per visit to Debtors based in the Grand Duchy of Luxembourg the Netherlands and the North of France.
 - Non-recoverable lawyer and litigation costs; prior to commencement of the proceedings, a provision is charged amounting to ten percent (10%) of the amount to be collected with a minimum of three hundred and seventy-five euro (€ 375.00); at the end of the legal proceedings the actual non-recoverable lawyer and litigation costs will be charged;
 - Costs of legal assistance by the Factor (indebted on top of the non-recoverable lawyer and litigation costs): ten percent of the amount actually collected with a minimum of one hundred and fifty euro (€ 150.00).
- In accordance with article 14.6 of the General Terms and Conditions, the costs of legal assistance will also be charged on all amounts actually due in case of bankruptcy or liquidation of the Client.
- Initially, no costs are charged for the use of Copilot; however, this can be changed in accordance with Article 8.4 of the Copilot user agreement.
- Audit costs: seven hundred and fifty euro (€ 750.00) each audit; if such audit has to be carried out abroad, these costs shall be increased by the actual travel costs.

4.4. The Parties confirm that the Technical Factor Data are the following:

Countries:	all member states of the European Union, as well as Andorra, Bahrain, Cyprus, Egypt, French Polynesia, Israel, Kuwait, Oman, Qatar, South Africa, Switzerland, Turkey and the United Arab Emirates;
Factorable turnover	fifty-two million euro (52,000,000.00);
Average invoice value	eleven thousand euro (11,000.00);
Number of debtors	fifty (50);
Payment conditions	thirty (30) days;

5. **Other terms and conditions**

- 5.1. In addition to article 2.1 of the General Terms and Conditions, receivables with regard to the sales of Xerox' products shall not be considered as Factorable Receivables (for the avoidance of doubt, Xerox' product means any product of Xerox Corporation [45 Glover Avenue, Norwalk, Connecticut, United States of America] or one of its affiliates or associated companies).
- 5.2. By way of derogation from article 3.12 of the General Terms and Conditions, once a week, the Client shall report any Invoice by sending the Factor a signed document called a 'notice of assignment of receivables', the format of which shall be supplied by the Factor.
- 5.3. By way of derogation from article 3.13 of the General Terms and Conditions, once a week, the Client shall report any credit note issued by sending the Factor a signed document called a notice of credit notes', the format of which shall be supplied by the Factor.
- 5.4. By way of derogation from article 3.15 of the General Terms and Conditions, the Client is exempt from systematically providing the Factor with a copy of the Invoices. The Client shall provide the Factor with a copy of the invoices upon first request of the latter.
- 5.5. By way of derogation from article 7.1 of the General Terms and Conditions, the Factor hereby appoints the Client as its attorney-in-fact having the powers to initially, i.e. until forty five (45) days following the due date of the Invoice in which the Assigned Receivable concerned is established, take care of the follow-up of the payment of the Assigned Receivables. After the aforementioned period, the Factor shall take care of the follow-up of the payment of the Assigned Receivables concerned.

These powers are granted if, and as long as, the following conditions are fulfilled:

- the tangible net worth (i.e.: the equity, decreased with (i) the goodwill and the intangibles, (ii) the bad debt (not provided for), (iii) the intercompany receivables and (iv) the current account on directors/shareholders (debit), and increased with (i) the intercompany debt (ii) the current account of directors/shareholders (credit) and (iii) the subordinated long term debt) of the Client exceeds two million euro (€ 2,000,000.00);
- the tangible net worth of the Client exceeds ten percent (10%) of the total assets;

- the Client commits no violation, even no violation due to slight negligence, of the provisions of the present Agreement.

In case the Factor has to revoke these powers and, consequently, has to take care of the follow-up of the payment of the Assigned Receivables immediately, the Factor shall, in addition to article 4.3 of these Special Terms and Conditions, be entitled to charge to the Client the following collection cost: costs of notice: six euro (€ 6.00) each document (Invoice or credit-note).

- 5.6. Quarterly, the Factor will check if, regarding the preceding period, the proportion between (i) the dilution (i.e. the total amount of issued credit notes concerning Assigned Receivables, increased with the total amount of payments concerning Assigned Receivables that are made directly by a Debtor to the Client, increased with the total amount of Disputed Receivables) and (ii) the total amount of Assigned Receivables does not exceed thirteen percent (13%).

If the proportion between (i) the dilution and (ii) the total amount of Assigned Receivables exceeds thirteen percent (13%), the Financing Percentage shall be decreased with the percentage of this exceeding.

- 5.7. The Client undertakes not to assign, transfer, pledge, grant a security on, or otherwise encumber any or all, current and/or future claims it may have against [•] within the scope of the credit policy n° [•] underwritten by the former with the latter.

The Client hereby appoints the Factor as its attorney-in-fact having the powers (a) to pledge all current and/or future claims the former may have against [•] within the scope of the credit policy n° [•] underwritten by the former with the latter and (b) to take all related necessary steps. The Factor undertakes not to exercise these powers unless one of the following conditions is fulfilled:

- (a) the tangible net worth of the Client is lower than two million euro (€ 2,000,000.00);
- (b) the tangible net worth of the Client is lower than ten percent (10%) of the total assets.

- 5.8. Annually, and for the first time within three (3) months following the Effective Date, the Factor shall carry out a pre-lending audit, during which the latter shall make a detailed study of, *inter alia*, the Client, its procedures, its contracts with its Debtors, the history of credit notes, the history of Disputed Receivables, etc. The Factor shall be entitled to terminate this Agreement if, in its sole discretion, the results of this pre-lending audit are unsatisfactory.

- 5.9. In addition to article 14 of the General Terms and Conditions, the Client shall be entitled to terminate this Agreement on its first anniversary following the Effective Date if, and only if, at that moment, the performance of this Agreement is hindered by operational problems due to the start-up of the Factor, and this by giving a Notice of Termination to the Factor at least three (3) months prior to the aforementioned first anniversary of the Agreement.

- 5.10. By way of derogation from article 14.3 of the General Conditions, in order to be valid, the Notice of Termination shall be given by the Party wishing to terminate the Agreement to the other Party at least three (3) months prior to the anticipated date of termination of the Agreement.

- 5.11. This Agreement is subject to the condition precedent that the Client terminates the factor agreement concluded on [•] with Fortis Commercial Finance SA/NV (BE414.392.710) and provides proof hereof to the Factor.

6. Effective date

The present Agreement shall take effect on 1st April, 2011 (the “**Effective Date**”).

The present Agreement comprises four (4) pages of Special Terms and Conditions and eight (8) pages of General Terms and Conditions.

Done in Leuven on [•] in two (2) original copies; each Party acknowledges having received one original copy.



On behalf of BNP Paribas Fortis Factor NV/SA

On behalf of Supplies Distributors NV/SA

/s/ Martijn Duynstee
MARTIJN DUYNSTEE
ADMINISTRATEUR DÉLÉGUÉ
SUPPLIES DISTRIBUTORS SA

/s/ Noël Dedoyard
Noël Dedoyard
Finance Manager

FACTORING AGREEMENT
(Appendix)

BETWEEN: **BNP Paribas Fortis Factor**, a public limited company under Belgian law, having its registered office at 3000 Leuven, Vital Decosterstraat 44, Register of Legal Entities of Leuven, company number 0819.568.044 (the “**Factor**”);

AND: **Supplies Distributors**, a public limited company under Belgian law, having its registered office at 4460 Grace-Hollogne, Rue Louis Blériot 5, Register of Legal Entities of Liège, company number 0475.286.142 (the “**Client**”);

The Factor and the Client are collectively referred to as the “**Parties**” and individually as a “**Party**”;

WHEREAS on the _____ of December 2010, a factoring agreement between Parties (the “**Agreement**”) was concluded;

WHEREAS the Parties, as of the signing of this Annex, wish to make a change to the Agreement;

THE FOLLOWING IS AGREED:

All terms that commence with a capital letter shall have the meaning attached to them in the General Terms and Conditions, which constitute an integral part of the present Agreement.

1. In addition to article 1.1, third indent, of the Special Terms and Conditions, should also be considered as Excluded Debtors:

- InfoPrint Solutions Company LLC (United States, CO 80301 Boulder, 6300 Diagonal Highway) and all its affiliated and associated companies;
- Olympus Europe Holding GmbH (14-18 Wendenstrasse, 20097 Hamburg, Germany, HRB 10554), or one of its affiliates or associated companies);
- Alpargatas Europe SL (15 C/Menorca, 28009 Madrid, Spain, NIF ESB85358596), or one of its affiliates or associated companies).

To the extent necessary, Parties declare that all other provisions of the Agreement remain unchanged.

This addendum comprises one (1) page.

Done in Leuven on 17th of December 2010 in two (2) original copies, each Party acknowledges having received one original copy.

On behalf of BNP Paribas Fortis Factor NV/SA

On behalf of Supplies Distributors NV/SA

/s/ Martijn Duynstee

MARTIJN DUYNSTEE
ADMINISTRATEUR DÉLÉGUÉ
SUPPLIES DISTRIBUTORS SA

/s/ Noël Dedoyard

Noël Dedoyard
Finance Manager

FACTORING AGREEMENT
(General Terms and Conditions)**1. Definitions**

1.1 Unless the context clearly indicates otherwise, the following terms that commence with a capital letter shall have the following meaning in the present Agreement:

Advance Financing	has the meaning attached to it in article 6.1 of these General Terms and Conditions;
Agreed Countries	has the meaning attached to it in the Special Terms and Conditions;
Agreement	means the present factoring agreement, consisting of the Special Terms and Conditions and the General Terms and Conditions, including any changes agreed upon in accordance with its provisions as well as any annexes;
Assigned Receivables	means all Factorable Receivables assigned in application of article 3.1 of these General Terms and Conditions (and each one of them an “ Assigned Receivable ”)
Client	has the meaning attached to it in the Special Terms and Conditions;
Collection	has the meaning attached to it in article 7.1 of these General Terms and Conditions;
Concentration Limit	has the meaning attached to it in the Special Terms and Conditions;
Copilot	has the meaning attached to it in article 5.1 of these General Terms and Conditions;
Costs	has the meaning attached to it in the Special Terms and Conditions;
Current Account	has the meaning attached to it in article 4.1 of these General Terms and Conditions;
Debtors	has the meaning attached to it in article 2.1 of these General Terms and Conditions (and each one of them a “ Debtor ”);
Dispute Negotiation Period	has the meaning attached to it in article 9.5 of these General Terms and Conditions;
Disputed Receivables	has the meaning attached to it in article 9.1 of these General Terms and Conditions;
Effective Date	has the meaning attached to it in the Special Terms and Conditions;
Excluded Debtor / Excluded Debtors	has the meaning attached to it in the Special Terms and Conditions;
Factor	has the meaning attached to it in the Special Terms and Conditions;
Factorable Receivables	has the meaning attached to it in article 2.1 of these General Terms and Conditions (and each one of them a “ Factorable Receivable ”);
Factoring Account	has the meaning attached to it in article 6.6 of these General Terms and Conditions;

Factoring Fee	has the meaning attached to it in the Special Terms and Conditions;
Financing Limit	has the meaning attached to it in the Special Terms and Conditions;
Financing Percentage	has the meaning attached to it in the Special Terms and Conditions;
General Terms and Conditions	means these general terms and conditions, which are part of the Agreement;
Interest Rates	has the meaning attached to it in the Special Terms and Conditions;
Invoice	has the meaning attached to it in article 3.5 of these General Terms and Conditions;
Invoicing Terms	has the meaning attached to it in article 3.11 of these General Terms and Conditions;
Minimum Factoring Fee	has the meaning attached to it in the Special Terms and Conditions;
Notice of Termination	has the meaning attached to it in article 14.2 of these General Terms and Conditions;
Party / Parties	has the meaning attached to it in the Special Terms and Conditions;
Security / Securities	has the meaning attached to it in the Special Terms and Conditions;
Special Terms and Conditions	means the special terms and conditions accepted by both Parties in a separate legal document, which are part of the Agreement.
Technical Factor Data	has the meaning attached to it in the Special Terms and Conditions;
Usual Business Activity	has the meaning attached to it in the Special Terms and Conditions;

2. Area of application

- 2.1. The present Agreement relates to all current and future receivables of the Client resulting from the delivery of goods and/or the provision of services to its debtors (the “Debtors”) based in the Agreed Countries within the scope of its Usual Business Activity, with the exception of:
- receivables on private individuals;
 - receivables on Excluded Debtors;
 - receivables on companies with which there is a direct or indirect link by virtue of participating interests;
 - receivables on companies in which the Client has personal interests;
 - receivables on debtors who are also creditors of the Client;
 - receivables for the delivery of goods and/or provision of services whereby the Debtor did not actually take delivery of the goods and/or the Debtor did not actually accept the services in question;

(any receivables within the area of application are called the “**Factorable Receivables**”).

3. Assignment

- Pursuant to articles 1689 to 1701 of the Civil Code, the Client hereby assigns to the Factor all Factorable Receivables, wholly owned and unencumbered, which the latter accepts under the following conditions.
- If the Client assigns to the Factor a receivable that is not a Factorable Receivable, the latter can and may accept this assignment without having the obligation to provide any services under the present Agreement.

- 3.3. The Client will only assign uncontested, unconditional and bona fide Factorable Receivables to the Factor.
- 3.4. Any Disputed Receivable is explicitly subject to the provisions contained in article 9 of these General Terms and Conditions.
- 3.5. Unless agreed otherwise in the Special Terms and Conditions, the Client will send the original of each invoice in which a Factorable Receivable has been established (the '**Invoice**') to its Debtor immediately after each delivery of goods and/or provision of services.
- 3.6. The Factor itself is at any given time entitled to send the original Invoices to the Debtor and/or to serve notice of the Assignment.
- 3.7. The Factor shall always serve notice of the assignment of a Factorable Receivable relating to the implementation of a public contract for works, supplies or services awarded by a contracting authority as defined in article 12 of the *Law of 15 June 2006 on public procurement and certain contracts for works, supplies and services* to the Debtor, contracting authority, in question.
- 3.8. All costs of sending an Invoice and/or a notice of assignment of a Factorable Receivable to a Debtor, incurred by the Factor, shall be charged by the latter to the Client.
- 3.9. Every Invoice shall feature the assignment clause supplied by the Factor and a description of the manner in which the Debtor can make a release payment.
- 3.10. Every Invoice shall also mention the payment terms.
- 3.11. Every Invoice shall also mention the invoicing terms and conditions that are supplied, or at least accepted, by the Factor (the "**Invoicing Terms**") in a language which the Debtor masters.
- 3.12. The Client shall report any Invoice by immediately sending the Factor a signed document called a 'notice of assignment of receivables', the format of which shall be supplied by the Factor.
- 3.13. The Client shall report any credit note issued by immediately sending the Factor a signed document called a notice of credit notes', the format of which shall be supplied by the Factor.
- 3.14. The Client shall immediately provide the Factor with the data of any Invoice by means of an electronic file, the format of which shall be determined by the Factor.
- 3.15. The Client shall immediately provide the Factor with a copy of any Invoice by means of an electronic file, the format of which shall be determined by the Factor.

4. Current Account

- 4.1. The Parties explicitly agree to create between them an indivisible current account (the "**Current Account**"), in which all claims from one Party against the other arising from the present Agreement or based on any other grounds will be settled.
- 4.2. If the Client needs to have several financing accounts at its disposal, these shall be deemed to be sub-accounts of the single, indivisible Current Account between the Client and the Factor. The Factor shall always have the possibility to offset any debit and credit balances in these sub-accounts / financing accounts with each other, even after bankruptcy of the Client or in case of any other form of concurrence.
- 4.3. Any setoff in the Current Account shall take place after deduction of the Factoring Fee, the Interest Rates, the Costs and any other expenses made by the Factor that are due by the Client.
- 4.4. Upon termination of the present Agreement, the credit balances are transferred to the Client upon settlement of the Current Account and after deduction of any possible amounts due (Factoring Fee, Interest Rates, Costs and any other expenses made or to be made by the Factor that are due by the Client).

5. Management and Administration of the debtor portfolio

- 5.1. Subject to the terms and conditions set forth below, the Factor undertakes to keep the following documents at the disposal of the Client by means of an online accessible electronic application called “Copilot” (“**Copilot**”):
- (a) An overview of the outstanding items of its Debtors;
 - (b) All documentation required to keep its accounts up to date.
- 5.2. The use of Copilot is subject to the acceptance of a separate user agreement, which is added to the present Agreement. By concluding the present Agreement, the Client declares to accept this user agreement and undertakes to confirm this acceptance upon first use.
- 6. Financing**
- 6.1. Subject to the terms and conditions set forth below, the Factor undertakes to grant financing to the Client by means of an advance on the Assigned Receivables (the “**Advance financing**”).
- 6.2. The Assigned Receivables on a Debtor shall qualify for Advance Financing only after receipt by the Factor of the following data to be reported by the Client:
- (a) the full and correct name of the Debtor in question;
 - (b) the full and correct address of the Debtor in question;
 - (c) the country where the Debtor in question is based;
 - (d) the VAT number of the Debtor in question;
 - (e) the company number of the Debtor in question (or similar for foreign Debtors);
- 6.3. Assigned Receivables with payment terms exceeding ninety (90) days do not qualify for Advance Financing, unless upon explicit acceptance by the Factor.
- 6.4. For any Assigned Receivable, the Advance Financing is limited to this fraction of the Assigned Receivable in question equal to the Financing Percentage. However, the total Advance Financing amount may never exceed the Financing Limit.
- 6.5. Upon request of the Client, the Advance Financing is settled with the Client in the Current Account in accordance with article 4.1 of the present General Terms and Conditions.
- 6.6. The actual available amount for Advance Financing (the “**Factoring Account**”) will appear from the documents the Factor puts at the disposal of the Client.
- 6.7. Each Assigned Receivable that is not settled within ninety (90) days after the due date shall automatically be withdrawn from Advance Financing.
- 6.8. The Factor reserves the right to wholly or partially withdraw Assigned Receivables on certain Debtors from Advance Financing, for example in the following cases (non-exhaustive list):
- (a) if the Concentration Limit is exceeded, i.e. when the proportion between (i) the Assigned Receivables on the Debtor in question qualifying for Advance Financing and (ii) the total of Assigned Receivables qualifying for Advance Financing exceeds the Concentration Limit;
 - (b) In case of imminent inability of the Debtor in question to pay;
 - (c) If the Factor is in the possession of negative information with regard to the Debtor in question.
- 6.9. If the Factor is of the opinion that the Assigned Receivables and/or the financial situation of the Client provide insufficient guarantee for the settlement of the Current Account, the Factor has the right to suspend the Advance Financing. The Factor shall inform the Client of this decision by registered letter.
- 6.10. Irrespective whether this Agreement has already taken effect, the Advance Financing will only be put at the disposal of the Client by the Factor if the former has provided all Securities.
- 6.11. If the Factoring Account is overdrawn, the Client shall immediately, and without a notice of default being required, repay the amount by which the account is exceeded to the Factor.

7. Payment/Collection

- 7.1. Subject to the terms and conditions set forth below, the Factor undertakes to take care of the follow-up of the payment of the Assigned Receivables (the “Collection”).
 - 7.2. All Assigned Receivables payments will be settled in the Current Account on a daily basis.
 - 7.3. Any payment of an Assigned Receivable made directly by a Debtor to the Client shall be reported immediately by the latter to the Factor and forwarded without delay.
 - 7.4. The Factor always has the right to reimburse to the Debtor a possible credit balance, a payment made by mistake and/or any legitimate demand for repayment from a Debtor without prior notice to the Client. The corresponding amount will be settled in the debit of the Current Account.
 - 7.5. Any difference in payment smaller than or equal to fifteen euro (€ 15.00) as well as any discount granted by the Client will be written off by the Factor without consultation with the Client.
 - 7.6. Upon termination of the present Agreement, all payments made will in the first place be used to settle the balance of the Current Account.
 - 7.7. If an Assigned Receivable has not been paid on its due date, the Factor shall initiate the dunning procedure.
 - 7.8. If, after the dunning procedure, it appears that an Assigned Receivable still has not been paid, a legal collection procedure may be pursued upon request of the Client. This legal collection procedure consists of two (2) parts:
 - (a) The legal collection procedure through the Factor’s legal services
 - (b) The legal collection procedure through external lawyers.
 - 7.9. The costs relating to this legal collection procedure will be charged by the Factor to the Client.
 - 7.10. If the portfolio of Assigned Receivables offers insufficient guarantees for the settlement of the Current Account, or in case of suspension of payments by the Client, the Factor will pursue the legal collection procedure without consulting the Client; however, the related costs will remain payable by the Client.
 - 7.11. If legal proceedings are instituted, the Factor has the right to conduct these proceedings in its own name, in the name of the Client or in the name of both without the Client having the possibility to dispute the valid assignment of the receivables.
 - 7.12. Except in case of explicit written approval by the Factor, the Client will not perform any delivery to a Debtor against whom an Assigned Receivable is being collected through the legal collection procedure.
 - 7.13. The Client assists the Factor in protecting its rights. If necessary, all documents required to support the receivables are submitted upon the Factor’s first request. In addition, both Parties shall inform each other of any information obtained with regard to the Debtors as far as this information may be relevant for one of the Parties.
- 8. Fee**
- 8.1. The Client shall pay the Factoring Fee on the Assigned Receivables (including VAT).
 - 8.2. The Factoring Fee is charged at the time of every assignment of a Factorable Receivable as well as at the time of every assignment of a receivable other than a Factorable Receivable provided this assignment is accepted by the Factor in accordance with article 3.2 of the present General Terms and Conditions.
 - 8.3. The total annual Factoring Fee charged shall furthermore never be lower than the Minimum Factoring Fee. Within this scope the total annual Factoring Fee charged is calculated not by calendar year but from the Effective Date to the first anniversary of the Effective Date, and subsequently from this anniversary of the Effective Date to the next anniversary of the Effective Date and so forth.
 - 8.4. If the recalculation carried on the basis of actual data of the Client shows that the Factoring Fee is not in line with the

Factoring Fee calculated on the basis of the Technical Factor Data, the Factor shall have the right to adjust the Factoring Fee with retroactive effect for a time period of maximum twelve (12) months. The Client is notified by the Factor of this adjustment in writing, in which case the former has the right to cancel the Agreement within thirty (30) days; the Agreement shall in this case be terminated ninety (90) days after notice of the cancellation is given.

- 8.5. The Advance Financing is subject to the Interest Rates.
- 8.6. The Interest Rates are adjusted by the Factor over the course of this Agreement depending on the adjustment of the basic interest rates. These adjustments are communicated on the monthly statements of the Current Account.
- 8.7. Furthermore, all Costs are charged to the Client. The rates of these Costs continue to apply in case of termination of the Agreement and are charged until the Current Account is settled.
- 8.8. All Costs, except those expressed in percentages, are adjusted by the Factor to the consumer price index on a calendar year basis.
- 8.9. All expenses related to all measures taken by the Factor to maintain or restore its rights versus the Client or the Debtors are at the expense of the Client.

9. Contestation

- 9.1. If either Party is informed of the fact that the Debtor contests an Assigned Receivable (the “**Disputed Receivable**”), this Party shall inform the other Party of this without delay.
- 9.2. The Factor has the right to immediately reassign any Disputed Receivable to the Client.
- 9.3. Any Advance Financing granted on the basis of a Disputed Receivable is immediately due as from the moment of contestation.
- 9.4. Any form of Collection performed with regard to a Disputed Receivable is immediately stopped and all Costs and/or expenses incurred by the Factor for the Collection of a Disputed Receivable are due as from the moment of contestation.
- 9.5. The Factor has the possibility to waive the right awarded to him in article 9.2 of the present General Terms and Conditions. In this case the Factor shall give the Client the possibility to settle the dispute with regard to the Disputed Receivable amicably within thirty (30) days (the “**Dispute Negotiation Period**”) after its emergence. The Client will accurately inform the Factor of any possible evolution in and any possible amicable solution for this dispute
- 9.6. If the Client reaches an amicable solution with the Debtor of the Disputed Receivable during the Dispute Negotiation Period, the Client shall regain its rights to Advance Financing and Collection in accordance with the provisions of the present Agreement.

10. Invoicing Terms

- 10.1. Apart from the Invoices in accordance with article 3.11 of the present General Terms and Conditions, the Client also needs to mention the Invoicing Terms, in a language which the Debtor masters, on the order forms, order confirmations and similar documents issued by the Client.
- 10.2. The Invoicing Terms shall provide for a retention of title.
- 10.3. Any adjustment the Client wants to make to the Invoicing Terms during the term of the present Agreement is only possible upon prior written approval of the Factor.

11. Direct debit of suppliers of the Client

- 11.1. The Client hereby authorises the Factor to pay any claim/receivable which a supplier of the Client who has also signed a factoring agreement with the Factor may have on the Client by means of direct debit into the Current Account insofar this claim/receivable is indebted and has fallen due, unless this claim/receivable is contested by the Client.

12. Exclusivity

12.1. Barring explicit written approval of the Factor, the Client undertakes not to conclude any factoring agreement nor any other similar agreement with a different company than the Factor regardless of the claim/receivable to which this agreement would relate. The Client can under no circumstances conclude an agreement with a different factoring company or assign or pledge claims/receivables in any other way to third parties without the approval of the factor, even if these claims/receivables are outside the area of application of the present Agreement.

13. Obligation to provide information

13.1. The Client provides the Factor with its financial statements no later than ten (10) working days after the general meeting at which these statements were approved.

13.2. The Factor furthermore has the right to request interim balance sheet data and financial data.

13.3. If the Factor deems it necessary to inspect the accounts, the Client will grant access to its offices to the persons entrusted with this inspection.

13.4. If the Client does not present the financial statements or does not present them in time, or presents incomplete or incorrect financial data, this may result in suspension or immediate termination of the present Agreement.

14. Duration / Termination

14.1. This Agreement is concluded for a duration of three (3) years following the Effective Date.

14.2. Unless in case of notice of termination of the present Agreement (the “**Notice of Termination**”) by either Party, this Agreement will each time be extended for a period of one (1) year.

14.3. In order to be valid, the Notice of Termination shall be given by the Party wishing to terminate the Agreement to the other Party at least six (6) months prior to the anticipated date of termination of the Agreement.

14.4. In order to be valid, the Notice of Termination shall be given in writing by registered letter.

14.5. This Agreement shall terminate automatically:

- (a) in case of suspension of business by the Client;
- (b) in case of suspension of payment by the Client;
- (c) in case of bankruptcy of the Client;
- (d) in case of liquidation of the Client or the Factor.

14.6. In case of bankruptcy or liquidation of the Client, any costs in this respect will be charged by the Factor on all amounts actually recovered.

14.7. In case of bankruptcy of the Client the Factor will inform the trustee of the termination of the Agreement, which will only continue to exist in view of the settlement of the Current Account.

14.8. The Factor can terminate or suspend this Agreement unilaterally without prior notice in case of one or several of the following events:

- (a) the Client committed a serious violation of the provisions of the present Agreement,
- (b) a bill of exchange accepted by the Client or a cheque issued by the Client is protested,
- (c) assets of the Client are seized under a prejudgment attachment or attachment in execution,
- (d) assets of the Factor or one of the Debtors of a Assigned Receivable are seized under garnishment;
- (e) the control over the Client is handed over;
- (f) four fifths (4/5) of the Client’s equity capital has been consumed;
- (g) the Client’s credits with its bankers are suspended or cancelled;
- (h) the Client’s guarantors withdraw;
- (i) the Client has considerable outstanding debts with social creditors and/or the treasury;
- (j) If applicable, the Client is removed from the list of registered contractors;

- (k) If applicable, the Client does not have the legally required permits and/or approvals;
- (l) In case of merger, split-up or absorption of the Client.

14.9 In case of serious violations to the Agreement, the Factor is exempted from all its obligations whereas the Client remains obliged to pay the Factoring Fee.

15. Liability

15.1. Except in case of fraud, the Factor can in no way be held liable for any kind of damage suffered by the Client due to default by the former within the scope of the present Agreement.

16. Transfer / Pledge of the Agreement

16.1. This Agreement as well as the resulting rights can only be transferred or pledged upon prior written approval by the Factor, which shall have to accept the deed of transfer or the deed of pledge, except as far as the transfer or pledge to Fortis Bank NV (BNP Paribas Fortis) is concerned.

17. Miscellanea

17.1. The invalidity of a provision of the present Agreement does not affect the validity of the other provisions of the Agreement and thus does not entail the invalidity of the entire Agreement.

17.2. If a Party refrains from invoking a default by the other Party, this shall under no circumstances mean that the former permanently refrains from invoking this default at a later point in time. If one of the Parties fails to insist on the exercise of its rights resulting from this Agreement on one or more occasions, this cannot be regarded as a waiver of these provisions or rights and these provisions and rights remain in full force. A once-only or partial exercise of rights or legal means by one of the Parties does not exclude a further or subsequent exercise of these rights or legal means or the exercise of other rights or legal means.

17.3. This Agreement covers the complete agreement between the Parties with respect to its subject and contains all items negotiated and agreed upon between the Parties. The Agreement supersedes any agreement, announcement, offer, proposal or correspondence, either oral or written, exchanged or concluded between the Parties prior to the Date of Commencement and relating to the same subject matter.

17.4. Any change to the Agreement is to be made in writing and signed by the legal representatives of the Parties.

18. Applicable law — Disputes

18.1. This Agreement is governed by Belgian law.

18.2. Any dispute relating to the conclusion, the validity, the interpretation or the performance of this Agreement or subsequent agreements or operations resulting from it, as well as any other disputes regarding or relating to this Agreement will fall within the exclusive jurisdiction of the court competent for the legal district of Leuven, without exceptions and regardless of whether it concerns a legal or factual matter.

POWER OF ATTORNEY

The undersigned, Martijn Duynstee, in his capacity as general manager (gedelegeerd bestuurder / administrateur délégué) acting on behalf of Supplies Distributors NV/SA, having its registered office at 4460 Grace-Hollogne, Rue Louis Blériot 5, Register of Legal Entities of Liège, company number 0475.286.142 (the “**Client**”), hereby referring to the factoring agreement (the “**Agreement**”) concluded on [•] between the Client and BNP Paribas Fortis Factor NV/SA, having its registered office at 3000 Leuven, Vital Decosterstraat 44, Register of Legal Entities of Leuven, company number 0819.568.044 (the “**Factor**”),

Hereby grants power of attorney to:

<u>Name</u>	<u>Position</u>	<u>Signature</u>
M. Duynstee	Managing Director	/s/ M. Duynstee
N. Dedoyard	Finance Manager	/s/ N. Dedoyard
E. Eloy	Accounting & Tax Manager	/s/ E. Eloy
S. Freyman	Credit Controller	/s/ S. Freyman

to sign each individually the notice of assignment of receivables referred to in article 3.12 of the General Terms and Conditions of the Agreement and the notice of credit notes referred to in Article 3.13 of the General Terms and Conditions of the Agreement on behalf and for the account of the Client.

The Client will immediately inform the Factor of any revocation of the present power of attorney versus one or several of the persons mentioned above.

Unless explicitly stated otherwise, all terms in this power of attorney that commence with a capital letter shall have the same meaning as attached to them in the Agreement.

Done in Leuven on [•].

/s/ Martijn Duynstee

MARTIJN DUYNSTEE
ADMINISTRATEUR DÉLÉGUÉ
SUPPLIES DISTRIBUTORS SA

/s/ Noël Dedoyard

Noël Dedoyard
Finance Manager

**COPILOT AGREEMENT
BNP PARIBAS FORTIS FACTOR N.V.**

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1. Object

1.1. The present agreement (the “**Agreement**”) determines the conditions under which BNP Paribas Fortis Factor N.V. (the “**Factor**”) puts its internet application ‘Copilot’ at the disposal of its client (the “**Subscriber**”), who accepts, within the scope of its factoring agreement (the “**Internet services**”).

2. System requirements

2.1. To gain access to the Internet Services, the Subscriber needs to be in the possession of at least the following hardware and software:

- a PC computer (Pentium IV processor recommended) with at least 256 Mb RAM memory (512 MB recommended),
- a 256 colour monitor with a resolution of 1024 x 768 and a fast modem (speed at least 56 kbps),
- Internet access (e.g. a subscription with a provider),
- a web browser (e.g. Firefox 2.0 or Internet Explorer 5, and more recent versions).

2.2. All Internet access costs are at the expense of the Subscriber.

3. Conditions of entry

3.1. The present conditions of entry are an integral part of the factoring agreement.

3.2. At the time of entry into the Agreement, the Subscriber indicates the function group(s) (Transaction Management — Statistics — ...) he would like to have. The corresponding costs will be invoiced at the rate indicated in the factoring agreement; this rate can be revised in accordance with article 8.4.

4. Identification procedure

4.1. The Subscriber has access to the Internet Services upon identification by means of a subscriber number and a password supplied by the Factor.

4.2. The Subscriber can change his password at any given time at his own initiative; it is indeed recommended to do this on a regular basis.

- 4.3. The password is of a strictly confidential nature. It only circulates on the Internet in encoded form. The Subscriber is responsible for the safekeeping, confidentiality and use of his password.
- 4.4. It is therefore agreed that any interrogation made or any order placed through the use of the subscriber number and password is deemed to originate from the Subscriber himself or, as the occasion arises, from one of his authorised representatives (see article 5).

5. Authorised representatives

- 5.1. Only one subscriber number and password combination gives access to the Internet Services. This combination can be used to have the factoring agreement carried out by the authorised representative(s), and by them only, under the responsibility of the Subscriber.
- 5.2. The confidentiality provisions and the assumption mentioned above (see article 4.4) shall apply to the authorised representatives. According to the rules of the mandate, any transaction carried out or accepted by an authorised representative in this manner will bind the Subscriber as if he had carried out or accepted the transaction himself.

6. Product evolution — Range of services

- 6.1. Depending in particular on the technical evolutions, the Factor will make such adjustments to the services offered as he considers necessary or desirable.

- 6.2. The Internet Services currently include:

- Transaction Management:
 - Company Credit Limit
 - Buyer management
 - Consultation of accounts
 - Outstanding amount
 - Assignment of invoices and credit notes
 - Financing request
 - Consultation of the revolving
 - Consultation of outstanding invoices
 - Invoice collection status
 - Consultation of correspondence
 - Dispute management

(reproduction limited to 500 lines)

- Statistics:
 - Limits
 - Overdue Invoices
 - Disputes
 - Outstanding balances
 - Ageing Analysis

- 6.3. In addition, the Factor will gradually put new functions at the disposal of the Subscribers. The Subscriber will be informed of the availability of a new function by means of a notification on the identification screen. Certain new functions may give rise to additional rates; these rates will be presented to the Subscriber for approval.

7. Processing of applications

- 7.1. Applications filed through this channel (limit application, transfer of invoices or credit notes, financing application, etc.) will be processed as soon as possible.
- 7.2. The requested financing will only be carried out depending on the available balance and the ongoing transactions.
- 7.3. All applications filed will be deemed to originate from a sufficiently authorised user who, in this capacity, is in the possession of the access codes of the service. The Factor cannot be held liable for any transaction carried out on

the basis of an application filed by an insufficiently authorised user or resulting from fraudulent use of the service. In this respect the Factor reserves the right to immediately suspend the execution of a transaction in case of facts that raise suspicions of abnormal use or attempted abnormal use.

8. Financial conditions

- 8.1. Use of the Internet Services is invoiced on a monthly basis. The amount of this invoice depends on the level of the services selected by the Subscriber in accordance with the rate mentioned in the factoring agreement.
- 8.2. The Subscriber explicitly authorises the Factor to debit the amount due to the current account of his factoring agreement. Each month started will be invoiced in full.
- 8.3. The rates are communicated to the Subscriber upon signature of the factoring agreement and can be consulted in the Factor's rate overview.
- 8.4. The rates can be revised. Any change in the rates or invoicing terms and conditions will be communicated to the Subscriber by means of a notification on the identification screen at least thirty days before these new rates take effect. If the Subscriber does not accept the new rates, he is entitled to terminate his subscription (see article 12). Use of the Internet Services after the date of effect of the revised rates is regarded as acceptance of the new rates by the Subscriber.
- 8.5. The Subscriber will be personally responsible for the payment of the communication costs invoiced to him by his provider.

9. Liability of the Factor

- 9.1. Except in case of deliberate intent, the Factor can in no way be held liable for any kind of damage suffered by the Subscriber due to a default by the former within the scope of the provision of the Internet Services.

10. Recommendations

- 10.1. In order to safeguard the confidential nature of his data, the Subscriber is requested to take all appropriate measures as regards his hardware and software to prevent storage of the consulted data on his computer and/or to delete these data upon completion of the consultation. If the Subscriber imports financial data into software, he will ensure that this information is not accessible to unauthorised third parties.
- 10.2. In addition, the Subscriber shall take all appropriate measures to protect the data and/or software stored on or loaded into his hardware against infection by viruses and against penetration attempts.

11. Evidence of the instructions and transactions

- 11.1. The transaction and balance statements communicated within the scope of the present Agreement are presented without prejudice to the transactions under consideration. The Subscriber therefore has the obligation to check the periodic statements or other information supplied by the Factor; only these statements serve as evidence.

12. Duration of the Agreement — Termination

- 12.1. This Internet Services subscription agreement is entered into for an indefinite time period starting from the date of connection of the Subscriber. The subscription agreement ends automatically upon the effective termination of the factoring agreement, to which the present agreement is inextricably linked.
- 12.2. Either party can terminate the present subscription at any given time by giving written notice to the other party. The termination will take effect after 30 days' notice starting from the day of receipt of this notification by the latter.
- 12.3. In addition, in case of a serious mistake by the Subscriber or in case of non-payment of the sums due within the scope of the present Agreement, the Factor may unilaterally terminate this subscription agreement without observing the required period of notice. The Factor will inform the Subscriber of his decision by registered letter.
- 12.4. In case of suspension of payment by the Subscriber, the subscription agreement is terminated automatically.

13. Changes to the Agreement

- 13.1. Any change to the present Agreement will be communicated to the Subscriber at least 30 days prior to the date on which it takes effect by means of specific communications addressed to the Subscriber on the identification screen.
- 13.2. The applicable version of the present Agreement can be consulted at any given time in the “Identification” section.
- 13.3. If the Subscriber does not agree with a change to the Agreement, the Subscriber has the possibility to terminate his subscription agreement with 30 days’ notice. Use of the Internet Services after the date on which the changes to the Agreement take effect is regarded as acceptance of the new rates by the Subscriber.

14. Legal framework

- 14.1. The present Agreement is governed by Belgian law.
- 14.2. Any disputes shall be settled by the courts of Leuven.

POWER OF ATTORNEY

The undersigned, Martijn Duynstee, in his capacity as general manager (gedelegeerd bestuurder / administrateur délégué) acting on behalf of Supplies Distributors NV/SA, having its registered office at 4460 Grace-Hollogne, Rue Louis Blériot 5, Register of Legal Entities of Liège, company number 0475.286.142 (the “**Client**”), hereby referring to the factoring agreement (the “**Agreement**”) concluded on [•] between the Client and BNP Paribas Fortis Factor NV/SA, having its registered office at 3000 Leuven, Vital Decosterstraat 44, Register of Legal Entities of Leuven, company number 0819.568.044 (the “**Factor**”),

1. Irrevocably authorises the Factor to transfer to her correct internal account all payments which the Factor may at any given time receive with regard to one or several Assigned Receivables;
2. Irrevocably authorises the handling bank to credit to the Factor’s account all cheques on which the Client is designated as beneficiary which the Client or the Factor may receive at any given time and which are issued by means of payment of one or several Assigned Receivables;
3. Irrevocably authorises the Factor to complete the missing endorsement to the Factor of one or several bills of exchange issued for payment of one or several Assigned Receivables;
4. Irrevocably authorises the Factor to attach the assignment clause to any Invoice in which a Transferred Claim is established and for which the latter considers this to be expedient in accordance with article 3.9 of the General Terms and Conditions of the Agreement.

Unless explicitly stated otherwise, all terms in this power of attorney that commence with a capital letter shall have the same meaning as attached to them in the Agreement.

This power of attorney is irrevocable and continues to apply until the Client’s last commitment resulting from the Agreement has expired.

Done in Leuven on [•].

/s/ Martijn Duynstee

MARTIJN DUYNSTEE
ADMINISTRATEUR DÉLÉGUÉ
SUPPLIES DISTRIBUTORS SA

/s/ Noël Dedoyard

Noël Dedoyard
Finance Manager

**AMENDMENT NO. 12
TO
AGREEMENT FOR INVENTORY FINANCING**

This Amendment No. 12 (“Amendment”) to the Agreement for Inventory Financing is made as of March 30, 2011 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 precedent set forth in Section 3 hereof, the Agreement is hereby amended as follows:

- A.** The definition of “Termination Date” is amended and restated in its entirety to read as follows:

“Termination Date”: shall mean March 31, 2012 or such other date as IBM Credit and the Loan Parties may agree to in writing from time to time.

- B.** 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 Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit operating division (as successor to Wachovia Bank, National Association, which, in turn, was successor to Congress Financial Corporation (Southwest) ("Wells Fargo"), pursuant to the Congress Credit Agreement, as permitted by the Amended and Restated Notes Payable Subordination Agreement; (b) may in calendar year 2011 pay cash dividends not to exceed one hundred percent of Borrower's calendar year 2010 net income according to GAAP, plus all cash dividends received from its subsidiaries; and (c) may permit Supplies Distributors of Canada, Inc. to make a one-time payment in an amount not to exceed Four Hundred Thousand Dollars (\$400,000.00) in 2011. Holdings is also permitted to pay cash dividends in calendar year 2011 equal to all cash dividends it receives in calendar year 2011 from its subsidiaries provided such distributions do not cause an event of default.

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

(i) Section II. Fees, Rates and Repayment Terms, subsection (A) is amended and restated in its entirety to read as follows:

(A) Credit Line: Twenty-five Million Dollars (\$25,000,000) In the event that the amount of any Participation is reduced or any Participation Agreement expires or is terminated for any reason, the Credit Line shall be reduced, upon forty-five (45) days written notice by IBM Credit to Borrower, by an amount equal to the amount that is no longer subject to a Participation Agreement as determined by IBM Credit pursuant to Section 2.1 of the Agreement.

Section 3. Conditions of Effectiveness of Amendment. This Amendment shall become effective upon the receipt by IBM Credit of 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.

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

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

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

Section 4.3 Litigation. Except as has been disclosed by the Loan Parties to IBM Credit in writing, there is no litigation, proceeding, investigation or labor dispute pending or threatened against any Loan Party, which, if adversely determined, would materially adversely affect the Loan Party's ability to perform such

Loan Party's obligations under the Agreement and the other documents, instruments and agreements executed in connection therewith or pursuant hereto.

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

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

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

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

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

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

IBM Credit LLC

By: _____
Print Name: _____
Title: _____

Supplies Distributors, Inc.

By: _____
Print Name: _____
Title: _____

Business Supplies Distributors Holdings, LLC

By: _____ as Managing Member

By: _____
Print Name: _____
Title: _____

Priority Fulfillment Services, Inc.

By: _____
Print Name: _____
Title: _____

PFSweb, Inc.

By: _____
Print Name: _____
Title: _____



**Attachment A (“Attachment A”) TO
AGREEMENT FOR INVENTORY FINANCING
DATED MARCH 29, 2002**

EFFECTIVE DATE OF THIS ATTACHMENT A: March 30, 2011

SECTION I. BORROWER/LOAN PARTIES:

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

SECTION II. FEES, RATES AND REPAYMENT TERMS:

(A) Credit Line: Twenty-five Million Dollars (\$25,000,000)

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

(B) Borrowing Base:

- (i) 100% of the Borrower’s inventory in the Borrower’s possession as of the date of determination as reflected in the Borrower’s most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, so long as (1) IBM Credit has a first priority security interest in such Products and (2) such Products are in new and un-opened boxes;
- (ii) 80% of price protection payments, credits, discounts, incentive payments, rebated and refunds relating to IBM Products (“Accounts”) in the aggregate not to exceed Two Million Five Hundred Thousand Dollars (\$2,500,000.00) provided that (i) Borrower obtains (and provides to IBM Credit along with the monthly Collateral Management Report required under Section 7.1 (O)) from IBM written confirmation (a) acknowledging the obligation of IBM to pay such amount or that they have received the billing from the Borrower, (b) stating the date the amount is due to be paid and (c) IBM waiving its right to setoff such amounts owed to Borrower with any amount Borrower may owe to IBM, (ii) such Accounts do not remain unpaid for more than sixty (60) days from the date the obligation of IBM occurred; and (iii) such Accounts are delivered directly to IBM Credit.

(C) Product Financing Charge: Prime Rate plus 0.50%

(D) Product Financing Period: 90 days

(E) Collateral Insurance Amount: Twenty-five Million Dollars (\$25,000,000.00)

(F) PRO Finance Charge: Prime Rate plus 0.50%

- (G) Delinquency Fee Rate: Prime Rate plus 6.500%
- (I) Free Financing Period Exclusion Fee: Product Advance multiplied by 0.25%
- (J) Other Charges:
 - (i) Monthly Service Fee: \$1,000.00
 - (ii) Annual Renewal Fee: \$15,000.00

SECTION III. FINANCIAL COVENANTS:

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

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

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

“Current Assets” shall mean assets that are cash, restricted cash applicable to cash received into a lockbox from collections of trade accounts receivable or expected to become cash within the ongoing twelve months.

“Current Liabilities” shall mean payment obligations resulting from past or current transactions that require settlement within the ongoing twelve month period. All indebtedness to IBM Credit and Congress shall be considered a Current Liability for purposes of determining compliance with the Financial Covenants. All subordinated indebtedness shall not be considered current liabilities.

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

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

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

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

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

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

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

“Net Profit after Tax” shall mean Revenue plus all other income, minus all costs, including applicable taxes.

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

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

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

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

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

“Total Net Worth” (the amount of owner’s or stockholder’s ownership in an enterprise) is equal to Total Assets minus Total Liabilities. For the purpose of calculating Total Net Worth of Borrower, following shall be excluded (i) accumulated earnings and unrealized foreign currency translation adjustments applicable to Borrower’s Canadian and European subsidiaries and (ii) all income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP.

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

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

	<u>Covenant</u>	<u>Covenant Requirement</u>
(i)	Revenue on an Annual Basis* (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 37.0:1.0

* Annualized Revenue from intercompany sales are excluded from this calculation.

(ii)	Net Profit after Tax to Revenue**	Equal to or Greater than 0.20 percent
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** Excluding all income and losses applicable to (a) 100% ownership in Canadian and European subsidiaries and (b) foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and excluding revenue from intercompany sales.

<u>Covenant</u>	<u>Covenant Requirement</u>
(iii) Total Liabilities to Tangible Net Worth***	Greater than Zero and Equal to or Less than 7.0:1.0

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

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

<u>Covenant</u>	<u>Covenant Requirement</u>
(i) Revenue on an Annual Basis (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 37.0:1.0

(ii) Net Profit after Tax to Revenue*	Equal to or Greater than 0.15 percent
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*Excluding all (a) income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and (b) revenue from intercompany sales.

(iii) Total Liabilities to Tangible Net Worth	Greater than Zero and Equal to or Less than 7.0:1.0
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3. PFSweb, Inc. will be required to maintain the following financial ratios, percentages and amounts as of the last day of the fiscal period under review (quarterly, annually) by IBM Credit:

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

**AMENDMENT 11
TO
AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)**

This Amendment 11 (“Amendment”) dated March 31, 2011 is made to the **AMENDED AND RESTATED PLATINUM PLAN AGREEMENT (WITH INVOICE DISCOUNTING)** by and among **IBM BELGIUM FINANCIAL SERVICES B.V.B.A.**, with a registered number of R.C. Brussels 451.673 with an address of Avenue du Bourget 42, BE- 1130 Brussels VAT BE 424300467 (“**IBM GF**” or “**us**”), **Suppliers Distributors S.A.** with a registered number of RC Liege 208795 with an address of Rue Louis Blériot 5, B-4460 Grâce-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 March 31, 2012 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 2011.”

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

Credit Line: €16,000,000

VAT Receivables: Included in Collateral Valuation

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

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

FINANCIAL COVENANTS

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

annually) by us and IBM Credit:

	<u>Covenant</u>	<u>Covenant Requirement</u>
(i)	Debt to Tangible Net Worth	Greater than Zero and Less than 7.0:1.0
(ii)	Net Profit after Tax to Revenue	Greater than 0.10 percent
(iii)	Working Capital Turnover (WCTO)	Greater than Zero and Less than 37.0:1.0

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

	<u>Covenant</u>	<u>Covenant Requirement</u>	<u>Date as of</u>
(i)	Minimum Tangible Net Worth	\$18,000,000.00	03/31/11 and beyond

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

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

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

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

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

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

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

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

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

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

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

IBM BELGIUM FINANCIAL SERVICES BVBA/ SPRL.

By: _____
Print Name: _____
Title: _____

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: _____
Print Name: _____
Title: _____

SUPPLIERS DISTRIBUTORS S.A.

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: _____

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: _____
Print Name: _____
Title: _____

PRIORITY FULFILLMENT SERVICES, INC.

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	11
Your Number	SDSA — RC Liege 208795	Effective date of Schedule	31 March 2011
Credit Limit	€16,000,000	Commencement Date	27 September 2001
No Charge Period	IBM 45 days	Prepayment Percentage	(i) 80% of Eligible IBM and InfoPrint Solution Company Reimbursables no older than 90 days (ii) 80% of Eligible IBM and InfoPrint Solution Company Receivables (iii) 80% of Eligible VAT Receivables

Collateral Value of Stock-in-Trade

100% of paid for IBM Printing 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.

FINANCE CHARGES (2)

Base Rate (3)	EURIBOR
Discount Charge (5)	Base Rate plus 1.82%
Default Rate	Base Rate plus 7%
Shortfall Fee	0.30% of Shortfall Amount
Banking Transfer Charge	Nil
Service Fee per Notification	N/A
Monthly Service Fee, Set up Fee	€1,500 plus VAT per month
Survey Fee	€5,000 plus VAT per IBM GF Survey
Security Filing Fee	Any fees required as a result of Uniform Commercial Code filings in US in connection with Collateralised Guarantees granted by SDI, Holdings and PFS
Unused Line Fee	Equal to thirty seven and one half (37.5) basis points times the weekly average unused portion of the Credit Line, accruable from the closing date and computed on the basis of a 360-day year, payable quarterly in arrears and upon the maturity or termination of the Credit Line
Extended Credit Charge	Base Rate plus 4.13%

REPORTING

Audited Accounts (4)	90 days after fiscal year
Management (unaudited) Accounts	35 days after fiscal calendar quarter
Collateral Management Report	10 days after calendar month
Aged Creditor Report	10 days after calendar month
Stock Report	10 days after calendar month
Fixed Asset Register	10 days after calendar month
Surveys	Once a year
Financial Covenant Compliance Certificate from both SDSA and Holdings	45 days after fiscal period
Extended Credit Period	in 10 day increments up to 30 days
VAT Receivables report with supporting documentation (including breakdown of calculations of VAT due and deductible)	20 days after calendar month

ADDITIONAL COLLATERAL

This Agreement

Stock Pledge Agreement among Supplies Distributors, Inc (“SDI”), and IBM GF, whereby SDI pledges 65% of its shares in SDSA to IBM GF

Amended and Restated Stock Pledge

Liens: Charges: Pledges: Fixed and Floating Charge over all IBM inventory of SDSA and Convention de Gage of SDSA to be registered at Commercial Court

As provided by us

Guarantees of payment of amounts due under the agreement.

Amended and Restated Collateralised Guarantees from PFS, Holdings, and SDI Amended and Restated Corporate Guaranty from PFSweb

Amended and Restated Notes Payable Subordination from SDI in respect of SDSA

As provided by us

Opinion of Counsel

a favourable opinion of counsel for Loan Parties (to be provided post closing) in substantially the form provided to you by us satisfactory to us and from counsel satisfactory to it;

Certificate of Authority

a certificate of the secretary or an assistant secretary of each Loan Party as applicable, certifying that, among other items, (i) SDSA and PFS Web B.V. are duly organized under the laws of the Kingdom of Belgium and registered to do business there (ii) true and complete copies of the articles of incorporation, or corresponding organizational documents, as applicable, and your by-laws are delivered therewith, together with all amendments and addenda thereto as in effect on the date thereof, (iii) the resolution as stated in the certificate is a true, accurate and compared copy of the resolution adopted by your Board of Directors authorizing the execution, delivery and performance of this Agreement and each other document executed and delivered in connection herewith, and (iv) the names and true signatures of your officers authorized to sign this Agreement and the other documents;

Miscellaneous

- Listing of all creditors (if any) providing accounts receivable financing to you;
- A duly executed compliance certificate as to your compliance with the financial covenants set forth below as of the last fiscal month you have published financial statements;
- A copy of an all-risk insurance certificate pursuant to Clause 8.2.5 of the Agreement
- The goods in transit can not contain of items older than 20 working days as net collateral value in the CMR.

OTHER CONDITIONS

1. Valid and enforceable customary documentation for the Collateral provided by SDSA and PFS Web B.V.
2. Any strategic changes in the structure of the group, significant management changes and/or any major changes in Capex/investment plans to be advised to IBM GF immediately.
3. Prepayments under the Platinum Plan are not to be used for early repayment of commercial loans.
4. The Financial Statements of SDSA and BSDA as of Closing Date in form and substance satisfactory to us in our sole discretion;
5. A certified copy of the current organization chart of Loan Parties;
6. Evidence satisfactory to us that UCC-1 statements have been filed against SDI, Holdings and PFS with IBM GF as the Lien holder;
7. IBM Credit is satisfied that all conditions precedent in accordance with the AIF have been met.

FINANCIAL COVENANTS

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

	<u>Covenant</u>	<u>Covenant Requirement</u>
(i)	Debt to Tangible Net Worth	Greater than Zero and Less than 7.0:1.0
(ii)	Net Profit after Tax to Revenue	Greater than 0.10 percent
(iii)	Working Capital Turnover (WCTO)	Greater than Zero and Less than 37.0:1.0

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

	<u>Covenant</u>	<u>Covenant Requirement</u>
(v)	Tangible Net Worth	Greater than \$18,000,000.00 for period ending 03/31/11 and beyond.

FINANCIAL COVENANT DEFINITIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Addresses

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

(i) if to IBM GF:

IBM Belgium Financial Services BVBA/SPRL.
Avenue du Bourget 42
B-1130 Brussels
Belgium
VAT BE 424300467

(ii) if to SDSA:

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

(iii) if to PFS Web B.V.

PFS Web B.V. SPRL
c/o SDSA

Footnotes:

- (1) All charges are exclusive of any taxes and duties. You agree to pay all applicable taxes and duties.
- (2) "EURIBOR", is the one month rate for Euros determined by the Banking Federation of the European Union appearing on Reuters page 01 at or about 11:00 am (Central European Time) on the relevant day. "Reuters page 01" means the display designated as "Page 01" on the Reuters Service (or such other page as may replace Page 01 on that service or such other service as may replace it). On the first Business Day of a calendar month the Base Rate will be changed to EURIBOR appearing for the last Business Day of the previous calendar month. If at any time, EURIBOR changes by 0.25% or more, the Base Rate will be changed by the same amount on the day of such change or the next following Business Day. Charges accruing from day to day will be calculated on the basis of a year of 360 days and the actual number of days elapsed. If the Due Date for payment in Euros is not a day on which settlement in Euros can be effected, the payment will be made on the preceding Business Day on which settlement can be effected.
- (3) Audited Accounts within 90 days of fiscal year end. Revised business plans/budgets will also be required at this time to enable an annual facility and covenant review to be effected by us.

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

Signed on behalf of

SUPPLIES DISTRIBUTORS S.A.

TVA BE 475.286.142

Signed: _____

By Name: _____

Title: _____

Signature: _____

Date: _____

PFS WEB B.V. SPRL

Signed: _____

By Name: _____

Title: _____

Signature: _____

Date: _____

Signed on behalf of

IBM BELGIUM FINANCIAL SERVICES BVBA/SPRL

TVA BE 424.300.467

Signed: _____

By Name: _____

Title: _____

Signature: _____

Date: _____

NINTH AMENDMENT TO FIRST AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS NINTH AMENDMENT TO FIRST AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (herein called this "Amendment") made as of the 31st day of March, 2011 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 extend the Revolving Maturity Date 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 Ninth Amendment to First Amended and Restated Loan and Security Agreement.

"Loan Agreement" means the Original Agreement as amended hereby

[Ninth Amendment]

ARTICLE II.

Amendment to Original Agreement

§ 2.1 Defined Terms.

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

"Committed Revolving Line" means a Credit Extension of up to (i) \$10,000,000 during the period of March 31, 2011 to and including October 31, 2011, (ii) \$12,500,000 during the period of November 1, 2011 to and including March 31, 2012, and (iii) \$10,000,000 from April 1, 2012 and thereafter, in each case inclusive of any amounts outstanding and the aggregate limits of the corporate credit cards issued to Borrower under the Letter of Credit and Credit Card Sublimit.

(b) 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 Transfers received by Borrower after March 31, 2011, in excess of \$2,150,000 and that the aggregate amount of any such cash dividends or cash distributions shall not exceed \$400,000 until the aggregate Inflow Transfers received by Borrower after March 31, 2011 exceed \$2,550,000.

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

- (e) Advances by Borrower to Supplies Distributor, Inc. pursuant to the Subordinated Demand Note, so long as (1) the aggregate outstanding principal amount of such Indebtedness does not exceed \$5,000,000 (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., PFSweb Philippine Services, LLC (f/k/a eCOST Philippine Services LLC), PFSM, LLC and PFSweb Retail Connect, Inc. (f/k/a eCOST.com, Inc.), not to exceed \$400,000, provided that (1) the aggregate amount of all Inflow Transfers after January 1, 2011 and prior to April 30, 2011 equals or exceeds \$750,000, 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.

[Ninth Amendment]

(d) 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 September 30, 2012.

(e) The definition of "Letter of Credit Sublimit" in Exhibit A to the Original Agreement is hereby amended in its entirety to read as set forth below:

"Letter of Credit and Credit Card Sublimit" means a sublimit for Letters of Credit and corporate credit cards under the Committed Revolving Line not to exceed \$2,500,000.

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

(a) Facility Fee. A facility fee in the aggregate amount of \$30,000 to be paid on March 31, 2011.

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

(d) EBITDA. As of the last day of each calendar month, the variance, if negative, then expressed as a positive number, between Borrower's EBITDA and the EBITDA set forth in the Approved Projections for the twelve (12) calendar month period ending on such date, shall not exceed \$350,000. As used herein, "EBITDA" shall mean, for any period of calculation, Borrower's earnings for such period before interest and taxes plus depreciation, amortization and non-cash stock compensation accruals to the extent deducted in the calculation of such earnings. "Approved Projections" means for the 2011 calendar year, the projections for such period that have been reviewed by Borrower's Board of Directors and delivered to Bank on or about March 9, 2011.

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

6.12 Inflow Transfers. Borrower shall receive not less than \$2,550,000 in aggregate Inflow Transfers during the period beginning March 31, 2011 and ending on July 5, 2011.

§ 2.5 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 \$4,500,000 in each fiscal year of Borrower, provided that the aggregate amount of such expenditures purchased with cash (and not financed) shall not exceed \$1,500,000; 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

[Ninth Amendment]

(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.

§ 2.6 Global Amendment. Each reference to the “Letter of Credit Sublimit” in the Original Agreement is hereby amended to refer to the “Letter of Credit and Credit Card Sublimit”.

§ 2.7 Consent. Sections 6.2(a) and (q) of the Original Agreement provide that Borrower will deliver to Bank Guarantor’s consolidated monthly financial statements and a Compliance Certificate within 45 days after the end of each calendar month. Bank hereby consents to Borrower delivering the financial statements and Compliance Certificate for the period ending January 31, 2011 on March 31, 2011, and waives any Event of Default arising from such delayed delivery of such financial statements and Compliance Certificate.

ARTICLE III.

Conditions of Effectiveness

§ 3.1 Effective Date. This Amendment shall become effective as of the date first above written when and only when Bank shall have received, at Bank’s office, (a) a counterpart of this Amendment executed and delivered by Borrower and the attached Consent and Agreement executed and delivered by Guarantor, and (b) the facility fee required pursuant to Section 2.5(a) of the Agreement.

ARTICLE IV.

Representations and Warranties

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

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

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

(c) The execution and delivery by Borrower of this Amendment, the performance by Borrower of its obligations hereunder and the consummation of the

[Ninth Amendment]

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.

[Ninth Amendment]

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

[Remainder of this page intentionally left blank]

[Ninth Amendment]

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:

[Ninth Amendment — Signature Page]

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:

[Ninth Amendment]

PFSweb, Inc. 2011 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 2011 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 2011;

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

I. Purpose and Terms of the Bonus Plan:

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

B. Under the terms of the Bonus Plan, Performance-Based Cash Awards, if any, will be awarded to the Chief Executive Officer and other executive officers, officers and senior management based on, and subject to, the achievement of the following performance goal. The performance goal shall be for the Company to exceed during the 2011 fiscal year, on a quarterly basis, the corresponding projected quarterly adjusted earnings before interest, taxes, depreciation, amortization, stock based compensation, and impairment charges contained in the Company's 2011 annual budget (or, in case of a budgeted operating loss, to reduce the operating loss below the budgeted operating loss) ("Adjusted EBITDA").

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

II. Determination of Performance-Based Cash Awards:

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

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

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

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

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

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

IN WITNESS WHEREOF, the undersigned, being all the members of the Committee, have adopted and authorized the foregoing as of the 27th day of April, 2011.

James Reilly

Timothy Murray

**SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT**

THIS SEVENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment"), is dated as of March 29, 2011, by and between **WELLS FARGO BANK, NATIONAL ASSOCIATION**, acting through its Wells Fargo Business Credit operating division (as successor to Wachovia Bank, National Association which, in turn, was successor to Congress Financial Corporation (Southwest)) ("Lender"), and **SUPPLIES DISTRIBUTORS, INC.**, a Delaware corporation ("Borrower").

WITNESSETH:

WHEREAS, Borrower and Lender entered into that certain Loan and Security Agreement, dated as of March 29, 2002 (as amended by (i) that certain First Amendment to Loan and Security Agreement, dated as of April 20, 2004, by and between Borrower and Lender; (ii) that certain Second Amendment to Loan and Security Agreement, dated as of December 21, 2004, by and between Borrower and Lender; (iii) that certain Third Amendment to Loan and Security Agreement, dated as of June 24, 2005, by and between Borrower and Lender; (iv) that certain Fourth Amendment to Loan and Security Agreement, dated as of April 17, 2006, by and between Borrower and Lender; (v) that certain Fifth Amendment to Loan and Security Agreement, dated as of March 28, 2007, and (vi) that certain Sixth Amendment to Loan and Security Agreement, dated as of January 6, 2009, and as further amended, restated, supplemented or otherwise modified through the date hereof, the "Loan Agreement"), whereunder Lender agreed to make extensions of credit from time to time to, or for the account of, Borrower;

WHEREAS, the parties hereto desire to make certain amendments to the Loan Agreement, subject to the terms hereof;

NOW THEREFORE, in consideration of the premises and of the mutual covenants contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Defined Terms. Unless otherwise defined herein, all capitalized terms used herein have the meanings assigned to such terms in the Loan Agreement, as amended hereby.

SECTION 2. Amendments. Upon the Amendment Effective Date (as hereinafter defined), the Loan Agreement shall be amended as follows:

(a) Clause (m) of the definition of "Eligible Borrower Accounts" contained in Section 1.1 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(m) such Accounts of a single account debtor or its affiliates do not constitute more than thirty-five percent (35%) of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Borrower Accounts); provided, that notwithstanding the foregoing, with respect to Accounts of Staples, Inc., and its subsidiaries and affiliates, such Accounts shall be Eligible Borrower Accounts if they do not constitute more than forty percent (40%) of all otherwise Eligible Accounts (but the portion of the Accounts not in excess of such percentage may be deemed Eligible Borrower Accounts)."

(b) The reference to "\$4,250,000" in Section 9.9(g) of the Loan Agreement is hereby deleted in its entirety and replaced with "\$3,500,000".

**SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT**

(c) The reference to “\$1,500,000” in Section 9.11(c)(i) is hereby deleted in its entirety and replaced with “\$1,000,000”.

(d) Section 12.1(a) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

“(a) This Agreement and the other Financing Agreements shall become effective as of the Closing Date and shall continue in full force and effect for a term ending on the earlier to occur of (i) March 31, 2014, or (ii) the date on which the parties to the IBM Master Distributor Agreement (or any similar agreement reached with Infoprint Solutions Company LLC (“Infoprint”)) shall no longer operate under the terms of such agreement and/or IBM or Infoprint, as applicable, no longer supplies products pursuant to such agreement to Borrower (the “Renewal Date”), and from year to year thereafter, unless sooner terminated pursuant to the terms hereof; provided, that Lender may, at its option, extend the Renewal Date by giving Borrower notice thereof at least sixty (60) days prior to the Renewal Date. Lender or Borrower (subject at all times to Lender’s right to extend the Renewal Date as provided above) may terminate this Agreement and the other Financing Agreements effective on the Renewal Date or on the anniversary of the Renewal Date in any year by giving to the other party at least sixty (60) days’ prior, written notice; provided, that this Agreement and all other Financing Agreements must be terminated simultaneously. In furtherance of the foregoing, on or before the proposed effective date of termination or non-renewal of this Agreement and the other Financing Agreements, Borrower shall pay to Lender, in full, all outstanding and unpaid Obligations and shall furnish cash collateral to Lender in such amounts as Lender determines are reasonably necessary to secure Lender from loss, cost, damage or expense, including attorneys’ fees and legal expenses, in connection with any contingent Obligations, checks or other payments provisionally credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Lender as Lender may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next business day, if the amounts so paid by Borrower to the bank account designated by Lender are received in such bank account later than 12:00 noon, Dallas, Texas time.”

(e) Section 12.1(c) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

“(c) If for any reason this Agreement is terminated prior to the end of the then current term or renewal term of this Agreement, in view of the impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender’s lost profits as a result thereof, Borrower agrees to pay to Lender, upon the effective date of such termination, an early termination fee in the amount set forth below if such termination is effective in the period indicated:

	<u>Amount</u>	<u>Period</u>
(1)	0.50% of Maximum Credit	From March 29, 2011, to and including March 28, 2012;
(2)	0.25% of Maximum Credit	From March 29, 2012, to and including March 29, 2013; and
(3)	Zero (0)	From March 30, 2013, and thereafter.

SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT

Such early termination fee shall be presumed to be the amount of damages sustained by Lender as a result of such early termination and Borrower agrees that it is reasonable under the circumstances currently existing. In addition, Lender shall be entitled to such early termination fee upon the occurrence of any Event of Default described in Sections 10.1(g) and 10.1(h) of the Loan Agreement, even if Lender does not exercise its right to terminate this Agreement, but elects, at its option, to provide financing to Borrower or permit the use of cash collateral under the United States Bankruptcy Code. The early termination fee provided for in this Section 12.1 shall be deemed included in the Obligations. Notwithstanding anything contained herein to the contrary, the early termination fee shall not apply to any early termination as the result of a complete refinancing of the Loans by Wells Fargo Bank, National Association.”

SECTION 3. Representations, Warranties and Covenants of Borrower. Borrower represents and warrants to Lender, and agrees that:

(a) the representations and warranties contained in the Loan Agreement (as amended hereby) and the other outstanding Financing Agreements are true and correct in all material respects at and as of the date hereof as though made on and as of the date hereof, except (i) to the extent specifically made with regard to a particular date and (ii) for such changes as are a result of any act or omission specifically permitted under the Loan Agreement (or under any Loan Document), or as otherwise specifically permitted by Lender;

(b) on the Amendment Effective Date, after giving effect to this Amendment, no Event of Default will have occurred and be continuing;

(c) the execution, delivery and performance of this Amendment have been duly authorized by all necessary action on the part of, and duly executed and delivered by, Borrower, and this Amendment is a legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as the enforcement thereof may be subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors’ rights generally and general principles of equity (regardless of whether such enforcement is sought in a proceeding in equity or at law); and

(d) the execution, delivery and performance of this Amendment do not conflict with or result in a breach by Borrower of any term of any material contract, loan agreement, indenture or other agreement or instrument to which Borrower is a party or is subject.

SECTION 4. Conditions Precedent to Effectiveness of Amendment. This Amendment shall become effective (the “Amendment Effective Date”) upon satisfaction of each of the following conditions:

(a) Each of Borrower and Lender shall have executed and delivered to Lender this Amendment, and such other documents as Lender may reasonably request;

(b) Borrower shall have paid to Lender the extension fee required to be paid to Lender pursuant to the terms of Section 5 of this Amendment;

(c) (i) Each of PFSweb, PFS, and Holdings shall have executed and delivered a Reaffirmation of Guarantee in the form attached to this Amendment, (ii) PFS shall have executed and delivered a Reaffirmation of Subordination Agreement and a Reaffirmation of Security Agreement, in each case, in the form attached to this Amendment, and (iii) Holdings shall have executed and delivered a Reaffirmation of Security Agreement in the form attached to this Amendment;

**SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT**

(d) No Event of Default shall have occurred and be continuing; and

(e) All legal matters incident to the transactions contemplated hereby shall be reasonably satisfactory to counsel for Lender.

SECTION 5. Extension Fee. On the date hereof, Lender shall have fully earned a fee in an amount equal to \$30,000.00, for the amendments set forth herein, which fee shall be fully due and payable on the date of execution hereof. Lender hereby is expressly authorized by Borrower to (i) charge such amount to Borrower's loan account, and (ii) designate such amount as a Revolving Loan under the Loan Agreement.

SECTION 6. Execution in Counterparts. This Amendment may be executed in counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of this Amendment by telefacsimile, ".pdf file" or other electronic method of transmission shall be equally as effective as delivery of an originally executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile, ".pdf file" or other electronic method of transmission also shall deliver an originally executed counterpart of this Amendment but the failure to deliver an originally executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

SECTION 7. Costs and Expenses. Borrower hereby affirms its obligation under Section 9.16 of the Loan Agreement to reimburse Lender for all expenses (including reasonable attorneys' fees) paid or incurred by Lender in connection with the preparation, negotiation, execution and delivery of this Amendment.

SECTION 8. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO THE INTERNAL CONFLICTS OF LAWS PROVISIONS THEREOF.

SECTION 9. Successors and Assigns. This Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 10. Effect of Amendment; Reaffirmation of Financing Agreements. The parties hereto agree and acknowledge that (a) nothing contained in this Amendment in any manner or respect limits or terminates any of the provisions of the Loan Agreement or the other outstanding Financing Agreements other than as expressly set forth herein and (b) the Loan Agreement (as amended hereby) and each of the other outstanding Financing Agreements remain and continue in full force and effect and are hereby ratified and reaffirmed in all respects. Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement, as amended hereby.

SECTION 11. Headings. Section headings in this Amendment are included herein for convenience of any reference only and shall not constitute a part of this Amendment for any other purposes.

SECTION 12. Release. BORROWER HEREBY ACKNOWLEDGES THAT AS OF THE DATE HEREOF IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE OBLIGATIONS OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER, ITS AFFILIATES AND PARTICIPANTS, OR ANY OF

SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT

THEIR RESPECTIVE DIRECTORS, OFFICERS, AGENTS, EMPLOYEES OR ATTORNEYS. BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS AFFILIATES AND PARTICIPANTS, AND THEIR RESPECTIVE PREDECESSORS, AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDER AND ITS PREDECESSORS, AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM THE LIABILITIES, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER FINANCING AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT. BORROWER HEREBY COVENANTS AND AGREES NEVER TO INSTITUTE ANY ACTION OR SUIT AT LAW OR IN EQUITY, NOR INSTITUTE, PROSECUTE, OR IN ANY WAY AID IN THE INSTITUTION OR PROSECUTION OF ANY CLAIM, ACTION OR CAUSE OF ACTION, RIGHTS TO RECOVER DEBTS OR DEMANDS OF ANY NATURE AGAINST LENDER, ITS AFFILIATES AND PARTICIPANTS, OR THEIR RESPECTIVE SUCCESSORS, AGENTS, ATTORNEYS, OFFICERS, DIRECTORS, EMPLOYEES, AND PERSONAL AND LEGAL REPRESENTATIVES ARISING ON OR BEFORE THE DATE HEREOF OUT OF OR RELATED TO LENDER'S ACTIONS, OMISSIONS, STATEMENTS, REQUESTS OR DEMANDS IN ADMINISTERING, ENFORCING, MONITORING, COLLECTING OR ATTEMPTING TO COLLECT THE OBLIGATIONS OF BORROWER TO LENDER, WHICH OBLIGATIONS WERE EVIDENCED BY THE LOAN AGREEMENT AND THE OTHER FINANCING AGREEMENTS.

[Signature page follows]

SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

SUPPLIES DISTRIBUTORS, INC.,
a Delaware corporation, as Borrower

By: _____
Name: _____
Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION,
through its Wells Fargo Business Credit operating division, as
successor to Wachovia Bank, National Association which, in
turn, was successor to Congress Financial Corporation
(Southwest), as Lender

By: _____
Name: _____
Title: _____

SIGNATURE PAGE TO SEVENTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT

Reaffirmation of Guarantee

Each of the undersigned hereby (i) consents and agrees to the terms and provisions of the foregoing Amendment and each of the transactions contemplated thereby, and confirms and agrees that all references in the Financing Agreements to the "Loan Agreement" shall mean the Loan Agreement as amended by the foregoing Amendment, and (ii) agrees that that certain Guarantee, dated as of March 29, 2002 (the "**Guarantee**"), executed by the undersigned, in favor of Lender, remains in full force and effect and continues to be the legal, valid and binding obligation of the undersigned enforceable against the undersigned in accordance with its terms.

Furthermore, each of the undersigned hereby agrees and acknowledges that (a) the Guarantee executed by the undersigned is not subject to any claims, defenses or offsets, (b) nothing contained in the foregoing Amendment shall adversely affect any right or remedy of Lender under the Guarantee executed by the undersigned or any other agreement executed by the undersigned in connection therewith, (c) the execution and delivery of the foregoing Amendment or any agreement entered into by Lender in connection therewith shall in no way reduce, impair or discharge any obligations of the undersigned pursuant to the Guarantee executed by the undersigned, and shall not constitute a waiver by Lender of Lender's rights against the undersigned under the Guarantee executed by the undersigned, (d) the consent of the undersigned is not required to the effectiveness of the foregoing Amendment and (e) no consent by the undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Loan Agreement or any present or future Financing Agreement (other than the Guarantee executed by the undersigned).

PFSWEB, INC.

By: _____
Name: _____
Title: _____

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: _____
Name: _____
Title: _____

REAFFIRMATION OF GUARANTEE

Reaffirmation of Subordination Agreement

The undersigned hereby (i) consents and agrees to the terms and provisions of the foregoing Amendment and each of the transactions contemplated thereby, and confirms and agrees that all references in the Financing Agreements to the "Loan Agreement" shall mean the Loan Agreement as amended by the foregoing Amendment, and (ii) agrees that that certain Notes Payable Subordination Agreement, dated as of March 29, 2002 (as amended through the date hereof, the "Subordination Agreement"), executed by the undersigned, acknowledged by Borrower, and accepted by Lender, remains in full force and effect and continues to be the legal, valid and binding obligation of the undersigned enforceable against the undersigned in accordance with its terms.

Furthermore, the undersigned hereby agrees and acknowledges that (i) the Subordination Agreement is not subject to any claims, defenses or offsets, (ii) nothing contained in the foregoing Amendment shall adversely affect any right or remedy of Lender under the Subordination Agreement or any other agreement executed by the undersigned in connection therewith, (iii) the execution and delivery of the foregoing Amendment or any agreement entered into by Lender in connection therewith shall in no way reduce, impair or discharge any obligations of the undersigned pursuant to the Subordination Agreement, and shall not constitute a waiver by Lender of Lender's rights against the undersigned under the Subordination Agreement, (iv) the consent of the undersigned is not required to the effectiveness of the foregoing Amendment and (v) no consent by the undersigned, in its capacity as a subordinated creditor of Borrower, is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Loan Agreement or any present or future document executed in connection therewith (other than the Subordination Agreement).

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

REAFFIRMATION OF SUBORDINATION AGREEMENT

Reaffirmation of Security Agreement

The undersigned (“Pledgor”) hereby (i) consents and agrees to the terms and provisions of the foregoing Amendment and each of the transactions contemplated thereby and confirms and agrees that all references in the Financing Agreements to the “Loan Agreement” shall mean the Loan Agreement as amended by the foregoing Amendment and (ii) agrees that the General Security Agreement, dated as of March 29, 2002, as amended, executed by Pledgor for the benefit of Lender (the “Security Agreement”), remains in full force and effect and continues to be the legal, valid and binding obligation of Pledgor enforceable against Pledgor in accordance with its terms.

Furthermore, Pledgor hereby agrees and acknowledges that (a) the Security Agreement is not subject to any claims, defenses or offsets, (b) nothing contained in the foregoing Amendment shall adversely affect any right or remedy of Lender under the Security Agreement or any agreement executed by Pledgor in connection therewith, (c) the execution and delivery of the foregoing Amendment or any agreement entered into by Lender in connection therewith shall in no way reduce, impair or discharge any obligations of Pledgor pursuant to the Security Agreement and shall not constitute a waiver by Lender of any of Lender’s rights under the Security Agreement, (d) the consent of Pledgor is not required to the effectiveness of the foregoing Amendment and (e) no consent by Pledgor is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Loan Agreement or any present or future Financing Agreement (other than the Security Agreement executed by Pledgor).

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

REAFFIRMATION OF SECURITY AGREEMENT

Reaffirmation of Security Agreement

The undersigned (“Pledgor”) hereby (i) consents and agrees to the terms and provisions of the foregoing Amendment and each of the transactions contemplated thereby and confirms and agrees that all references in the Financing Agreements to the “Loan Agreement” shall mean the Loan Agreement as amended by the foregoing Amendment and (ii) agrees that the General Security Agreement, dated as of March 29, 2002, as amended, executed by Pledgor for the benefit of Lender (the “Security Agreement”), remains in full force and effect and continues to be the legal, valid and binding obligation of Pledgor enforceable against Pledgor in accordance with its terms.

Furthermore, Pledgor hereby agrees and acknowledges that (a) the Security Agreement is not subject to any claims, defenses or offsets, (b) nothing contained in the foregoing Amendment shall adversely affect any right or remedy of Lender under the Security Agreement or any agreement executed by Pledgor in connection therewith, (c) the execution and delivery of the foregoing Amendment or any agreement entered into by Lender in connection therewith shall in no way reduce, impair or discharge any obligations of Pledgor pursuant to the Security Agreement and shall not constitute a waiver by Lender of any of Lender’s rights under the Security Agreement, (d) the consent of Pledgor is not required to the effectiveness of the foregoing Amendment and (e) no consent by Pledgor is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Loan Agreement or any present or future Financing Agreement (other than the Security Agreement executed by Pledgor).

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: _____
Name: _____
Title: _____

REAFFIRMATION OF SECURITY AGREEMENT

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

I, Mark Layton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2011

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

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

I, Tom Madden, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PFSweb, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2011

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

**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, 2011 (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 16, 2011

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

May 16, 2011

/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.