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 June 30, 2005

OR

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

For the Transition Period from _______ to _______

Commission File Number 000-28275

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

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

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

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

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

At August 8, 2005 there were 22,482,475 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q
June 30, 2005

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

PFSWEB, INC. AND SUBSIDIARIES

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

	June 30, 2005 (Unaudited)	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 13,439	$ 13,592
Restricted cash	937	2,746
Accounts receivable, net of allowance for doubtful accounts of $435 and $504 at June 30, 2005 and December 31, 2004, respectively	43,818	41,565
Inventories, net	46,384	44,947
Other receivables	7,464	8,061
Prepaid expenses and other current assets	3,423	3,349
Total current assets	115,465	114,260
PROPERTY AND EQUIPMENT, net	13,812	14,264
RESTRICTED CASH	300	675
OTHER ASSETS	1,261	1,128
Total assets	$130,838	$130,327
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	$ 24,232	$ 19,098
Trade accounts payable	57,911	61,583
Accrued expenses	9,881	10,971
Total current liabilities	92,024	91,652
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	7,049	7,232
OTHER LIABILITIES	1,731	1,517
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; 40,000,000 shares authorized; 22,521,308 and 21,665,585 shares issued at June 30, 2005 and December 31, 2004, respectively; and 22,435,008 and 21,579,285 outstanding at June 30, 2005 and December 31, 2004, respectively	23	22
Additional paid-in capital	58,599	56,645
Accumulated deficit	(29,837)	(29,077)
Accumulated other comprehensive income	1,334	2,421
Treasury stock at cost, 86,300 shares	(85)	(85)
Total shareholders' equity	30,034	29,926
Total liabilities and shareholders' equity.	$130,838	$130,327

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

PFSWEB, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
REVENUES:				
Product revenue, net	$63,438	$65,304	$127,068	$133,874
Service fee revenue	16,298	11,034	30,383	18,165
Pass-through revenue	5,134	3,682	9,284	5,466
Total net revenues	84,870	80,020	166,735	157,505
COSTS OF REVENUES:				
Cost of product revenue	59,613	61,723	119,250	126,176
Cost of service fee revenue	12,102	6,714	22,870	11,967
Pass-through cost of revenue	5,134	3,682	9,284	5,466
Total costs of revenues	76,849	72,119	151,404	143,609
Gross profit	8,021	7,901	15,331	13,896
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,952	6,910	14,918	14,042
Income (loss) from operations	69	991	413	(146)
INTEREST EXPENSE, NET	474	324	793	752
Income (loss) before income taxes	(405)	667	(380)	(898)
INCOME TAX EXPENSE	141	188	380	390
NET INCOME (LOSS)	$ (546)	$ 479	$ (760)	$ (1,288)
NET INCOME (LOSS) PER SHARE:				
Basic	$ (0.02)	$ 0.02	$ (0.03)	$ (0.06)
Diluted	$ (0.02)	$ 0.02	$ (0.03)	$ (0.06)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	22,419	21,239	22,278	21,212
Diluted	22,419	23,129	22,278	21,212

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

Table of Contents

PFSWEB, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (760)	$ (1,288)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,012	2,336
Provision for doubtful accounts	(68)	148
Provision for excess and obsolete inventory	—	728
Deferred income taxes	30	(95)
Non-cash compensation expense	14	14
Changes in operating assets and liabilities:		
Accounts receivables	(2,948)	(6,339)
Inventories, net	(3,228)	538
Prepaid expenses, other receivables and other assets	237	(1,894)
Accounts payable, accrued expenses and other liabilities	(2,623)	7,269
Net cash provided by (used in) operating activities.	(6,334)	1,417
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,561)	(1,797)
Decrease in restricted cash	1,348	257
Net cash used in investing activities	(1,213)	(1,540)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(580)	(529)
Decrease in restricted cash	837	448
Proceeds from issuance of common stock	1,940	124
Proceeds from debt	5,144	850
Net cash provided by financing activities	7,341	893
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	53	(26)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(153)	744
CASH AND CASH EQUIVALENTS, beginning of period	13,592	14,743
CASH AND CASH EQUIVALENTS, end of period	$13,439	$15,487
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under capital leases	$ 891	$ 1,490

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

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. *OVERVIEW AND BASIS OF PRESENTATION*

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

PFSweb Overview

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

Supplies Distributors Overview

Supplies Distributors acts as a master distributor of various products, primarily International Business Machines Corporation ("IBM") product, under a master distributor agreement with IBM. Supplies Distributors has outsourced to PFSweb the transaction management and fulfillment service functions of its distribution business and has outsourced to a third party the sales and marketing functions. Supplies Distributors sells its products in the United States, Canada and Europe.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of June 30, 2005, and for the three and six months ended June 30, 2005 and 2004, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of June 30, 2005, its results of operations for the three and six months ended June 30, 2005 and 2004 and its results of cash flows for the six months ended June 30, 2005 and 2004. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data has been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net loss or shareholders' equity.

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 in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The recognition and allocation of certain operating expenses in these consolidated financial statements also require management estimates and assumptions. The Company's estimates and assumptions are continually evaluated based on available information and experience. Because the use of estimates is inherent in the financial reporting process, actual results could differ from estimates.

Concentration of Business and Credit Risk

The Company's product revenue was primarily generated by sales to customers of product purchased under master distributor agreements with one supplier. The Company's service fee revenue was generated under contractual service fee relationships with multiple clients.

Product sales to four customers accounted individually each for greater than 10%, and in the aggregate accounted for approximately 45.6%, of the Company's total product revenues for the six months ended June 30, 2005. Service fee revenue from three clients individually accounted for approximately 32%, 14% and 12% of service fee revenue for the six months ended June 30, 2005. On a consolidated basis, there were no customer/clients that accounted for 10% or more of the Company's total revenues for the six months ended June 30, 2005. As of June 30, 2005, two customers each individually accounted for approximately 10% of accounts receivable.

In conjunction with Supplies Distributors' financings, PFSweb has provided certain collateralized guarantees on behalf of Supplies Distributors. Supplies Distributors' ability to obtain financing on similar terms would be significantly impacted without these guarantees. Additionally, since Supplies Distributors has limited personnel and physical resources, its ability to conduct business could be materially impacted by contract terminations by the party performing product demand generation for the IBM products.

The Company has multiple arrangements with IBM and is dependent upon the continuation of such arrangements. These arrangements, which are critical to the Company's ongoing operations, include Supplies Distributors' master distributor agreements, certain of Supplies Distributors' working capital financing agreements, product sales to IBM business units, a service fee relationship, and a term master lease agreement.

Cash and Cash Equivalents

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

Inventories

Inventories (all of which are finished goods) are stated at the lower of weighted average cost or market. Supplies Distributors assumes responsibility for slow-moving inventory under certain master distributor agreements, subject to certain termination rights, but has the right to return product rendered obsolete by engineering changes, as defined. The Company reviews inventory for impairment on a periodic basis, but at a minimum, annually. Recoverability of the inventory on hand is measured by comparison of the carrying value of the inventory to the fair value of the inventory. The allowance for slow moving inventory was $1.9 million and $2.5 million at June 30, 2005 and December 31, 2004, respectively.

In the event PFSweb, Supplies Distributors and IBM 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.

Inventories include merchandise in-transit that has not been received by the Company but that has been shipped and invoiced by Supplies Distributors' vendors. The corresponding payable for inventories in-transit is included in accounts payable in the accompanying consolidated financial statements.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Property and Equipment

The Company's property held under capital leases amounted to approximately $2.8 million and $3.0 million, net of accumulated amortization of approximately $6.1 million and $5.4 million, at June 30, 2005 and December 31, 2004, respectively.

Stock-Based Compensation

The Company accounts for stock-based employee compensation plans using the intrinsic-value method as outlined under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25") and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25*, issued in March 2000. The following table shows the pro forma effect on the Company's net income (loss) and income (loss) per share as if compensation cost had been recognized for stock-based employee compensation plans based on their fair value at the date of the grant. The pro forma effect of stock-based employee compensation plans on the Company's net income (loss) for those periods may not be representative of the pro forma effect for future periods due to the impact of vesting and potential future awards.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In thousands, except per share amounts)			
Net income (loss) as reported	$ (546)	$ 479	$ (760)	$(1,288)
Add: Stock-based non-employee compensation expense included in reported net income (loss)	14	14	14	14
Deduct: Total stock-based employee and non-employee compensation expense determined under fair value based method	(373)	(269)	(575)	(376)
Pro forma net income (loss), applicable to common stock for basic and diluted computations	$ (905)	$ 224	$(1,321)	$(1,650)
Income (loss) per common share – as reported				
Basic	$(0.02)	$ 0.02	$ (0.03)	$ (0.06)
Diluted	$(0.02)	$ 0.02	$ (0.03)	$ (0.06)
Income (loss) per common share – pro forma				
Basic	$(0.04)	$ 0.01	$ (0.06)	$ (0.08)
Diluted	$(0.04)	$ 0.01	$ (0.06)	$ (0.08)

During the six months ended June 30, 2005, the Company issued an aggregate of 761,000 options to purchase shares of common stock to officers, directors, employees and consultants of the Company.

Impact of Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123, *Share-Based Payment* ("SFAS 123R") which replaces SFAS No. 123, *Accounting for Stock-Based Compensation,* ("SFAS 123") and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees.* In March 2005, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107, *Share-Based Payment,* which provides interpretive guidance related to SFAS 123R. SFAS 123R requires all share-based payment transactions to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 no longer will be an alternative to financial statement recognition. In April 2005, the SEC delayed the effective date of SFAS 123R to the beginning of the annual reporting period that began after June 15, 2005. The Company is currently evaluating SFAS 123R to determine the impact on its consolidated financial statements. However, it is expected to have a negative effect on consolidated net income.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

3. *COMPREHENSIVE INCOME (LOSS) (in thousands)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net income (loss)	$ (546)	$479	$ (760)	$(1,288)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(544)	(91)	(1,087)	(372)
Comprehensive income (loss)	$(1,090)	$388	$(1,847)	$(1,660)

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

Basic and diluted net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding for the reporting period. For the six months ended June 30, 2005 and 2004, and the three months ended June 30, 2005, outstanding options of 5.5 million, 5.1 million and 5.5 million, respectively, to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. For the three months ended June 30, 2004, the effect of dilutive stock options increased the number of weighted average shares outstanding by 1.9 million for computing diluted net income per share.

5. *VENDOR FINANCING:*

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

	June 30, 2005	December 31, 2004
Inventory and working capital financing agreements:		
United States	$26,440	$26,962
Europe	12,002	13,110
Total	$38,442	$40,072

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 IBM products in the United States, providing financing for eligible IBM inventory and for certain other receivables. In June 2005, the facility was amended to increase the maximum borrowing amount up to $30.5 million. As of June 30, 2005, Supplies Distributors had $4.1 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, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $7.0 million and a minimum shareholders’ equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 1%. The facility also includes a monthly service fee. The Company has classified the outstanding amounts under this credit facility as accounts payable in the consolidated balance sheets.

Inventory and Working Capital Financing Agreement, Europe

Supplies Distributors’ European subsidiaries have a short-term credit facility with IBM Belgium Financial Services S.A. (“IBM Belgium”) to finance their distribution of IBM products in Europe. The asset based credit facility with IBM Belgium provides up to 12.5 million Euros (approximately $15.1

million) in financing for purchasing IBM inventory and for certain other receivables. As of June 30, 2005, Supplies Distributors' European subsidiaries had 2.6 million euros ($3.1 million) of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors and its European subsidiaries to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors' European subsidiaries, as well as collateralized guaranties of Supplies Distributors and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of $7.0 million and a minimum shareholders' equity of $18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at Euribor plus 2.5%. Supplies Distributors' European subsidiaries pay a monthly service fee on the commitment. The Company has classified the outstanding amounts under this credit facility that are collateralized by inventory as accounts payable in the consolidated balance sheets.

6. ***DEBT AND CAPITAL LEASE OBLIGATIONS;***

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

	June 30, 2005	December 31, 2004
Loan and security agreements, United States Supplies Distributors	$12,992	$ 8,328
PFSweb	6,453	4,853
Factoring agreement, Europe	3,218	3,848
Taxable revenue bonds	5,000	5,000
Master lease agreements	3,302	3,141
Inventory and working capital financing agreement – Europe	—	682
Other	316	478
Total	31,281	26,330
Less current portion of long-term debt	24,232	19,098
Long-term debt, less current portion	$ 7,049	$ 7,232

Loan and Security Agreement — Supplies Distributors

Supplies Distributors has a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to $25 million of eligible accounts receivable in the United States and Canada. As of June 30, 2005, Supplies Distributors had $2.7 million of available credit under this agreement. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate plus 0.00% to 0.25% or Eurodollar rate plus 2.25% to 2.75%, dependent on excess availability, as defined. This agreement contains cross default provisions, various restrictions upon the ability of and Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFSweb is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than $6.5 million and restricted cash of less 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 Congress pursuant to which a security interest was granted to Congress for all customer remittances received in specified bank accounts. At June 30, 2005 and December 31, 2004, these bank accounts held $0.4 million and $1.2 million, respectively, which was restricted for payment to Congress.

Loan and Security Agreement – PFSweb

Priority Fulfillment Services, Inc. ("PFS"), a wholly-owned subsidiary of PFSweb, has a Loan and Security Agreement with Comerica Bank ("Comerica"), which was amended in June 2005 ("Comerica Agreement"). The Comerica Agreement, as amended, provides for up to $7.5 million of eligible accounts receivable financing ("Working Capital Advances") through March 2, 2007 and $2.5 million of equipment financing ("Equipment Advances") through June 15, 2008. Outstanding Working Capital Advances, $4.6 million as of June 30, 2005, accrue interest at prime rate plus 1%. Outstanding Equipment Advances, $1.9 million as of June 30, 2005, accrue interest at prime rate plus 1.5%. As of June 30, 2005, PFS had $2.5 million available credit under the Working Capital Advance portion and no available credit under the Equipment Advance portion of this facility. In July 2005, the Company repaid the $4.6 million of Working Capital Advances outstanding as of June 30, 2005. 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, 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 to a maximum of $8 million. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb. The Comerica Agreement requires PFS to maintain a minimum cash balance of $1.3 million at Comerica.

Factoring Agreement

Supplies Distributors' European subsidiary has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million euros (approximately $9.1 million) of eligible accounts receivables through March 2006. As of June 30, 2005, Supplies Distributors' European subsidiary had approximately 1.0 million euros ($1.2 million) of available credit under this agreement. Borrowings under this agreement can be either cash advances or straight loans, as defined. Cash advances accrue interest at 3.8% and straight loans accrue interest at Euribor plus 1.3%. This agreement contains various restrictions upon the ability of Supplies Distributors' European subsidiary to, among other things, merge, consolidate and incur indebtedness, as well as financial covenants, such as minimum net worth. This agreement is secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

Taxable Revenue Bonds

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

The primary source of repayment of the Bonds is a letter of credit (the "Letter of Credit") in the initial face amount of $5.1 million issued by Comerica pursuant to a Reimbursement Agreement between PFSweb and Comerica under which PFSweb is obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has an initial maturity date of December 2006 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof. PFSweb has established a sinking fund account with Comerica, which at June 30, 2005 includes $0.2 million restricted for payment on the Bonds.

Debt Covenants

To the extent the Company fails to comply with its covenants applicable to its debt or vendor financing obligations, including the monthly financial covenant requirements and required level of stockholders' equity ($20.0 million), and the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. 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.

PFSweb has also provided a guarantee of the obligations of Supplies Distributors to IBM, excluding the trade payables that are financed by IBM credit.

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 3 to 5 years. The outstanding leasing transactions ($0.9 million and $1.2 million as of June 30, 2005 and December 31, 2004, respectively) are secured by the related equipment and letters of credit. The outstanding financing transactions ($0.3 million and $0.5 million as of June 30, 2005 and December 31, 2004, respectively) are secured by a letter of credit.

The Company has a master agreement with a leasing company that provided for leasing transactions of certain equipment. The amounts outstanding under this agreement as of June 30, 2005 and December 31, 2004 were $1.1 million and $1.2 million, respectively, and are secured by the related equipment.

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

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

7. *SEGMENT INFORMATION*

The Company is organized into two operating segments: PFSweb is an international provider of integrated business process outsourcing solutions and operates as a service fee business; Supplies Distributors is a master distributor of primarily IBM products.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues (in thousands):				
PFS	$23,833	$16,626	$ 44,198	$ 27,663
Supplies Distributors	63,438	65,304	127,068	133,874
Eliminations	(2,401)	(1,910)	(4,531)	(4,032)
	$84,870	$80,020	$166,735	$157,505
Income (loss) from operations (in thousands):				
PFS	$ (1,022)	$ (236)	$ (2,356)	$ (3,057)
Supplies Distributors	1,091	1,227	2,769	2,904
Eliminations	—	—	—	7
	$ 69	$ 991	$ 413	$ (146)
Depreciation and amortization (in thousands):				
PFS	$ 1,509	$ 1,210	$ 3,012	$ 2,329
Supplies Distributors	—	—	—	14
Eliminations	—	—	—	(7)
	$ 1,509	$ 1,210	$ 3,012	$ 2,336
Capital expenditures (in thousands):				
PFS	$ 488	$ 841	$ 2,561	$ 1,797
Supplies Distributors	—	—	—	—
Eliminations	—	—	—	—
	$ 488	$ 841	$ 2,561	$ 1,797

	June 30, 2005	December 31, 2004
Assets (in thousands):		
PFS	$ 59,041	$ 56,610
Supplies Distributors	85,772	88,548
Eliminations	(13,975)	(14,831)
	$130,838	$130,327

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

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. The Company plans to dispute the notice. If the dispute is not resolved favorably, the Company could be assessed additional taxes for calendar years 2004 and 2005. The Company has not accrued for the additional taxes, which through June 30, 2005 could be $0.4 million to $0.5 million for 2004 and $0.2 million for 2005, as it does not believe that it is probable that an additional assessment will be incurred.

On May 9, 2005, a lawsuit was filed in the District Court of Collin County, Texas, by J. Gregg Pritchard, as Trustee of the D.I.C. Creditors Trust, naming the former directors of Daisytek International Corporation and the Company as defendants. Daisytek filed for bankruptcy in May 2003 and the Trust was created pursuant to Daisytek's Plan of Liquidation. The complaint alleges, among other things, that the spin-off of the Company from Daisytek in December 1999 was a fraudulent conveyance and that Daisytek was damaged thereby in the amount of at least $38 million. The Company believes the claim has no merit and intends to vigorously defend the action.

In the ordinary course of business, one or more of the Company's clients may dispute Company invoices for services rendered or other charges. As of June 30, 2005, an aggregate of approximately $700,000 of client invoices were in dispute. The Company believes it will resolve these disputes in its favor and has not recorded any reserve for such disputes.

Table of Contents

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, 2004, 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 IBM;
- our dependence upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- trends in the market for our services;
- trends in e-commerce;
- whether we can continue and manage growth;
- changes in the trend toward outsourcing;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- the unknown effects of possible system failures and rapid changes in technology;
- trends in government regulation both foreign and domestic;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency on key personnel;
- the impact of new accounting standards and rules regarding revenue recognition, stock options and other matters;
- changes in accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing; and
- our ability or the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants.

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

Overview

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

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

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

Our second business segment is a product revenue model. In this segment, we are a master distributor of product for IBM and certain other clients. In this capacity, we purchase, and thus own, inventory and recognize the corresponding product revenue. As a result, upon the sale of inventory, we own the accounts receivable. Freight costs billed to customers are reflected as components of product revenue. This business segment requires significant working capital requirements, for which we have senior credit facilities to provide for more than $80 million of available financing.

Growth is a key element to achieving our future goals, including maintaining sustainable profitability. Our growth is driven by two main elements: new client relationships and organic growth from existing clients. On an overall basis, we have experienced an increase in service fee revenues from existing clients and an increase in product revenues in recent years. During 2004, we were successful in winning new contracts with new and existing clients. We currently believe these new contracts, once fully operational, will generate annual service fee revenue of more than $20 million. We expect to invoice more than 80% of the estimated annual run-rate revenue of these new contracts during 2005. Our results for the three months and six months ended June 30, 2005 include approximately $5.3 million and $9.9 million, respectively, of new revenue.

Although our success with winning new contracts has recently improved, we continue to monitor and control our costs to focus on profitability. While we expect our new service fee contracts to yield increased gross profit, we expect this profit to be somewhat offset by incremental investments to implement new contracts, investments in infrastructure and sales and marketing to support our targeted growth and increased public company professional fees.

Our expenses comprise primarily four categories: 1) cost of product revenue, 2) cost of service fee revenue, 3) cost of pass-through revenue and 4) selling, general and administrative ("SG&A") expenses.

Cost of product revenue — cost of product revenue 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 IBM to Supplies Distributors or its customers 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.

SG&A expenses — consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, certain direct contract costs related to our IBM and other master distributor agreements are reflected as selling and administrative expenses.

Monitoring and controlling our available cash balances continues to be a primary focus. Our cash and liquidity positions are important components of our financing of both current operations and our targeted growth. In recent years we have added to our available cash and liquidity positions through various transactions. First we have a working capital financing agreement with a bank that currently provides financing for up to $7.5 million of eligible accounts receivable and has provided financing for $2.5 million of eligible capital expenditures. Secondly, in 2003 we completed a private placement of approximately 1.6 million shares of our common stock to certain investors that provided net proceeds of approximately $3.2 million. In January 2005, we issued an additional 0.4 million shares of common stock to certain of these investors who exercised warrants issued in the private placement. The warrants exercised provided $1.3 million of additional proceeds. Thirdly, in 2004 we received proceeds of $5 million of taxable revenue bonds to finance capital additions to one of our new facilities in Southaven, MS.

Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (Unaudited)	2004 (Unaudited)	2005 (Unaudited)	2004 (Unaudited)
Product revenue, net	74.8%	81.6%	76.2%	85.0%
Service fee revenue	19.2	13.8	18.2	11.5
Pass-through revenue	6.0	4.6	5.6	3.5
Total revenues	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue)	94.0	94.5	93.8	94.2
Cost of service fee revenue (as % of service fee revenue)	74.3	60.8	75.3	65.9
Cost of pass-through revenue (as % of pass-through revenue)	100.0	100.0	100.0	100.0
Total costs of revenues	90.5	90.1	90.8	91.2
Gross profit	9.5	9.9	9.2	8.8
Selling, general and administrative expenses	9.4	8.6	8.9	8.9
Income (loss) from operations	(0.1)	1.2	0.3	(0.1)
Interest expense, net	0.5	0.4	0.5	0.5
Income (loss) before income taxes	(0.4)	0.8	(0.2)	(0.6)
Income tax expense	0.2	0.2	0.2	0.2
Net income (loss)	(0.6)%	0.6%	(0.4)%	(0.8)%

Results of Operations for the Three and Six Months Ended June 30, 2005 and 2004

Product Revenue. Product revenue was $63.4 million for the three months ended June 30, 2005, as compared to $65.3 million for the three months ended June 30, 2004, a decrease of $1.9 million, or 2.9%. Product revenue was $127.1 million for the six months ended June 30, 2005, as compared to $133.9 million for the six months ended June 30, 2004, a decrease of $6.8 million, or 5.4%. The decrease in product revenue resulted primarily from the decreased sales volume of certain product partially offset by the impact of exchange rates in our European operations.

Service Fee Revenue. Service fee revenue was $16.3 million for the three months ended June 30, 2005 as compared to $11.0 million for the three months ended June 30, 2004, an increase of $5.3 million or 47.4%. For the six month period ended June 30, 2005 and 2004, service fee revenue was $30.4 million and $18.2 million respectively, an increase of $12.2 million or 67.3%. The change in service fee revenue is shown below ($ millions):

	Three Months	Six Months
Period ended June 30, 2004	$11.0	$18.2
New service contract relationships, including certain incremental projects under new contracts	5.3	9.9
Increase in existing client service fees including impact of certain incremental projects with existing clients	0.4	3.4
Terminated clients not included in 2005 revenue	(0.4)	(1.1)
Period ended June 30, 2005	$16.3	$30.4

The increase in existing client service fees primarily resulted from one of our large clients modifying its product release schedule, shifting certain of its 2005 order activity from the second half to the first half of the year.

Cost of Product Revenue. Cost of product revenue was $59.6 million for the three months ended June 30, 2005, as compared to $61.7 million for the three months ended June 30, 2004, a decrease of $2.1 million or 3.4%. Cost of product revenue as a percent of product revenue was 94.0% and 94.5% during the three months ended June 30, 2005 and 2004, respectively. The resulting gross profit margin was 6.0% and 5.5% for the three months ended June 30, 2005 and 2004, respectively. For the six month period ended June 30, 2005 and 2004, cost of product revenue was $119.3 million and $126.2 million, respectively, a decrease of $6.9 million or 5.5%. Cost of product revenue as a percent of product revenue was 93.8% and 94.2% during the six months ended June 30, 2005 and 2004, respectively. The resulting gross profit margin was 6.2% for the six months ended June 30, 2005 and 5.8% for the six months ended June 30, 2004. The gross margin for the three and six months ended June 30, 2004 included higher provisions for excess and obsolete inventory of $0.4 million and $0.8 million, respectively, as compared to the comparable periods in 2005. Cost of product revenue also decreased as the result of decreased sales volumes of certain products.

Cost of Service Fee Revenue. Cost of service fee revenue was $12.1 million for the three months ended June 30, 2005, as compared to $6.7 million during the three months ended June 30, 2004, an increase of $5.4 million or 80.6%. The resulting service fee gross profit was $4.2 million, or 25.7% of service fee revenue, during the three months ended June 30, 2005 as compared to $4.3 million, or 39.2% of service fee revenue for the three months ended June 30, 2004. Cost of service fee revenue was $22.9 million for the six months ended June 30, 2005, as compared to $12.0 million during the six months ended June 30, 2004, an increase of $10.9 million or 90.8%. The resulting service fee gross profit was $7.5 million, or 24.7% of service fee revenue, during the six months ended June 30, 2005 as compared to $6.2 million, or 34.1% of service fee revenue for the six months ended June 30, 2004. Our gross profit as a percent of service fees decreased in the current periods primarily due to lower gross margins on certain new contracts partially due to higher costs incurred during the implementation and initial operating periods of certain clients. The three months ended June 30, 2004 also reflects the higher gross margin benefit related to certain project revenue that has not occurred at a similar level in the corresponding period of 2005. As we add new service fee revenue in the future, we currently intend to target the underlying contracts to earn an average gross profit percentage of 25-35%, 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. SG&A expenses were $8.0 million for the three months ended June 30, 2005, or 9.4% of total revenues, as compared to $6.9 million, or 8.6% of total revenues, for the three months ended June 30, 2004. SG&A expenses were $14.9 million for the six months ended June 30, 2005, or 8.9% of total revenues, as compared to $14.0 million, or 8.9% of total revenues, for the six months ended June 30, 2004. The increase in SG&A expenses is primarily due to relocation related costs applicable to our Memphis facilities, the unfavorable impact of exchange rates, legal fees related to the Daisytek lawsuit filed in May 2005 (see Part II. Other Information, Item 1. Legal Proceedings), incremental sales and marketing expenses, and certain personnel related costs. During the September quarter, we expect to incur additional relocation related costs of approximately $1.0 million, which includes a previously unanticipated incremental charge estimated to be approximately $0.5 million related to a lease termination.

Income Taxes. We recorded an income tax provision of $0.1 million and $0.2 million for the three months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, we recorded a tax provision of $0.4 million, primarily associated with our subsidiary Supplies Distributors' Canadian and European operations. We did not record an income tax benefit associated with our consolidated net loss in our U.S. operations. A valuation allowance has been provided for our net deferred tax assets as of June 30, 2005, which are primarily related to our net operating loss carryforwards. We did not record an income tax benefit for our PFSweb Canadian pre-tax losses in the current or prior periods. We anticipate that we will continue to record an income tax provision associated with Supplies Distributors' Canadian and European results of operations.

Liquidity and Capital Resources

Net cash used in operating activities was $6.3 million for the six months ended June 30, 2005, and primarily resulted from an increase in accounts receivable of $2.9 million, a $3.2 million increase in inventories, a $2.6 million decrease in accounts payable, accrued expenses and other liabilities and partially offset by net income, as adjusted for non-cash items, of $2.2 million. The increase in accounts receivable was primarily due to increased service fee billings for certain client relationships and the timing of payments received by certain clients. Net cash provided by operating activities was $1.4 million for the six months ended June 30, 2004, and primarily resulted from an increase in accounts payable, accrued expenses and other liabilities of $7.3 million, net income as adjusted for non-cash items, of $1.8 million, partially offset by an increase in accounts receivable of $6.3 million and prepaid expenses, other receivables and other assets of $1.9 million.

Net cash used in investing activities for the six months ended June 30, 2005 totaled $1.2 million, representing capital expenditures partially offset by a decrease in restricted cash. Net cash used in investing activities for the six months ended June 30, 2004 totaled $1.5 million, primarily representing capital expenditures. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, and general expansion of 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 that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately $7 to $10 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event that we do not obtain the financing or achieve the revenue necessary to support such investments.

Net cash provided by financing activities was approximately $7.3 million for the six months ended June 30, 2005, primarily representing $5.1 million of proceeds from debt and $1.9 million from the issuance of common stock pursuant to our employee stock purchase and stock option programs and warrant exercises. Net cash provided by financing activities was approximately $0.9 million for the six months ended June 30, 2004, primarily representing proceeds from debt.

During the six months ended June 30, 2005, our working capital increased to $23.4 million from $22.6 million at December 31, 2004, primarily as a result of the issuance of common stock due to the exercise of certain warrants. 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 that we will be successful in obtaining any additional financing or the terms thereof. We currently believe that our cash position, financing available under our credit facilities and funds generated from operations (including our anticipated revenue growth and/or cost reductions to offset lower than anticipated revenue growth) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our lease obligations, and additional subordinated loans to our subsidiary Supplies Distributors, if necessary, for at least the next twelve months.

The following is a schedule of our total contractual cash obligations as of June 30, 2005, which is comprised of operating leases, debt (including vendor financing) and capital leases, including interest (in millions):

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	Payments Due By Period				
Debt	$66,681	$60,962	$ 2,519	$3,200	$—
Capital lease obligations	3,342	1,360	1,861	121	—
Operating leases	24,134	7,403	14,289	2,372	70
Total	$94,157	$69,725	$18,669	$5,693	$70

In support of certain debt instruments and leases, as of June 30, 2005, we had $0.9 million of cash restricted as collateral for letters of credit. The letters of credit expire at various dates through March 2007, the related debt and lease obligations termination dates. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain Supplies Distributors' credit facilities. Many of our debt facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other agreements. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders' equity, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. Any requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of June 30, 2005, we were in compliance with all debt covenants and we believe that we will maintain such compliance throughout calendar year 2005. Other than those noted herein, 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.

Supplies Distributors has a short-term credit facility with IBM Credit LLC ("IBM Credit") and its European subsidiaries have a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance their distribution of IBM products. We have provided a collateralized guaranty to secure the repayment of these credit facilities. The asset-based credit facilities provide financing for up to $30.5 million and up to 12.5 million Euros (approximately $15.1 million) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2006.

Supplies Distributors also has a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to $25 million of eligible accounts receivables in the United States and Canada. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement.

Supplies Distributors' European subsidiary has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million Euros (approximately $9.1 million) of eligible accounts receivables through March 29, 2006. Borrowings under this agreement can be either cash advances or straight loans, as defined.

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 and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than $7.0 million, maintain restricted cash of less 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, excluding the trade payables that are financed by IBM credit.

Our subsidiary, Priority Fulfillment Services, Inc. ("PFS"), has entered into a Loan and Security Agreement with Comerica Bank ("Comerica"), which, as amended, provides for up to $7.5 million of eligible accounts receivable financing through March 2007, and up to $2.5 million of eligible equipment purchases through June 2008. As of June 30, 2005, there were $2.5 million of funds available for accounts receivable financing and no available credit under the equipment purchasing financing. We entered this Agreement to supplement our existing cash position, and provide funding for our 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 related parties, 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, and a minimum liquidity ratio, as defined. The agreement also limits our ability to increase the subordinated loan to Supplies Distributors to more than $8.0 million without the lender's approval. The agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb.

In 2003, we entered into a Securities Purchase Agreement with certain institutional investors in a private placement transaction pursuant to which we issued and sold an aggregate of 1.6 million shares of our common stock, par value $.001 per share (the "Common Stock"), at $2.16 per share, resulting in gross proceeds of $3.4 million. After deducting expenses, the net proceeds were approximately $3.2 million. In addition to the Common Stock, the investors received one-year warrants to purchase an aggregate 525,692 shares of Common Stock at an exercise price of $3.25 per share and four-year warrants to purchase an aggregate of 395,486 shares of Common Stock at an exercise price of $3.30 per share. In January 2005, 394,865 of the one-year warrants were exercised prior to their expiration, generating net proceeds to us of $1.3 million. We intend to use the net proceeds from the private placement and warrant exercises for general working capital purposes.

In 2004, to fulfill our obligations under certain new client relationships, we entered into a three-year operating lease arrangement for a new distribution facility in Southaven, MS, near our existing distribution complex in Memphis, TN. We have incurred approximately $6 million in capital expenditures to support the incremental business in this new distribution center. We financed a significant portion of these expenditures via a Loan Agreement with the Mississippi Business Finance Corporation (the "MBFC") pursuant to which the MBFC issued $5 million MBFC Taxable Variable Rate Demand Limited Obligation Revenue Bonds, Series 2004 (Priority Fulfillment Services, Inc. Project) (the "Bonds"). The MBFC loaned us the proceeds of the Bonds for the purpose of financing the acquisition and installation of equipment, machinery and related assets located in our new Southaven, Mississippi distribution facility. The primary source of repayment of the Bonds is a letter of credit (the "Letter of Credit") in the initial face amount of $5.1 million issued by Comerica pursuant to a Reimbursement Agreement between us and Comerica under which we are obligated to pay to Comerica all amounts drawn under the Letter of Credit. The Letter of Credit has an initial maturity date of December 2006 at which time, if not renewed or replaced, will result in a draw on the undrawn face amount thereof.

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. We plan to dispute the notice. If the dispute is not resolved favorably, we could be assessed additional taxes for calendar years 2004 and 2005. We have not accrued for the additional taxes, which through June 30, 2005 could be $0.4 million to $0.5 million for 2004 and $0.2 million for 2005, as we do not believe that it is probable that an additional assessment will be incurred.

In April 2005, we entered into a five-year operating lease arrangement for a new distribution facility in Southaven, MS, near our existing facility in Southaven, MS. We are in the process of moving certain operations from one of our existing facilities in Memphis, TN into this facility, which we expect to complete during the quarter ended September 30, 2005. During the September quarter we expect to incur additional relocation related costs of approximately $1.0 million, which includes a previously unanticipated incremental charge estimated to be approximately $0.5 million related to a lease termination.

On May 9, 2005, a lawsuit was filed in the District Court of Collin County, Texas, by J. Gregg Pritchard, as Trustee of the D.I.C. Creditors Trust, naming the former directors of Daisytek International Corporation and the Company as defendants. Daisytek filed for bankruptcy in May 2003 and the Trust was created pursuant to Daisytek's Plan of Liquidation. The complaint alleges, among other things, that the spin-off of the Company from Daisytek in December 1999 was a fraudulent conveyance and that Daisytek was damaged thereby in the amount of at least $38 million. We believe the claim has no merit and intend to vigorously defend the action.

In the ordinary course of business, one or more of the Company's clients may dispute Company invoices for services rendered or other charges. As of June 30, 2005, an aggregate of approximately $700,000 of client invoices were in dispute. The Company believes it will resolve these disputes in its favor and has not recorded any reserve for such disputes.

Seasonality

The seasonality of our business is dependent upon the seasonality of our clients' business and sales of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix and their current business volumes, our service fee business activity was at it lowest in the quarter ended March 31. However due to product release schedule changes from certain of our clients, we believe this seasonal impact will not be as significant in 2005 as it has been in prior years. We anticipate that our product revenue will be highest during the quarter ended December 31.

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

Inflation

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

Critical Accounting Policies

A description of critical accounting policies is included in Note 2 to the accompanying unaudited interim condensed consolidated financial statements. For other significant accounting policies, see Note 2 to the consolidated financial statements in our December 31, 2004 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

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

Interest Rate Risk

Our interest rate risk is limited to our outstanding balances on our inventory and working capital financing agreements, taxable revenue bonds, loan and security agreements and factoring agreement for the financing of inventory, accounts receivable and certain other receivables and certain equipment, which amounted to $66.4 million at June 30, 2005. A 100 basis point movement in interest rates would result in approximately $0.3 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at June 30, 2005.

Foreign Exchange Risk

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

ITEM 4. Controls and Procedures

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, within 90 days prior to the filing date of this report. 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.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

On May 9, 2005. a lawsuit was filed in the District Court of Collin County, Texas, by J. Gregg Pritchard, as Trustee of the D.I.C. Creditors Trust, naming the former directors of Daisytek International Corporation and the Company as defendants. Daisytek filed for bankruptcy in May 2003 and the Trust was created pursuant to Daisytek's Plan of Liquidation. The complaint alleges, among other things, that the spin-off of the Company from Daisytek in December 1999 was a fraudulent conveyance and that Daisytek was damaged thereby in the amount of at least $38 million. The Company believes the claim has no merit and intends to vigorously defend the action.

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

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

On June 10, 2005, the Company held its Annual Meeting of Stockholders. The following matters were acted upon and votes cast or withheld:

1. Election of Directors

Mark Layton	For: 20,267,052	Withheld: 486,760
Timothy Murray	For: 19,540,281	Withheld: 1,213,531
Dr. Neil Jacobs	For: 19,991,492	Withheld: 762,320

2. Approval of Stock Option Plan

For: 3,607,710	Against: 3,217,854	Abstentions and broker non-votes: 73,359

3. Approval of Employee Stock Purchase Plan

For: 4,560,957	Against: 2,287,555	Abstentions and broker non-votes: 50,411

4. Appointment of KPMG LLP as auditors for the fiscal year ending December 31, 2005

For: 20,467,555	Against: 264,519	Abstentions and broker non-votes: 21,738

ITEM 5. Other Information

None.

Table of Contents

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1**	PFSweb, Inc. 2005 Employee Stock and Incentive Plan
10.2**	PFSweb, Inc. 2005 Employee Stock Purchase Plan
10.3***	Amendment 3 to Loan and Security Agreement
10.4***	Amendment 6 to Agreement for Inventory Financing
10.5***	Amendment 1 to First Amended and Restated Loan and Security Agreement
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

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

** Incorporated by reference from Current Report on Form 8-K filed on June 14, 2005.

*** Filed herewith.

b) Reports on Form 8-K:

Form 8-K furnished on May 16, 2005 reporting Item 12, Results of Operations and Financial Condition, that on May 16, 2005, PFSweb, Inc. issued a press release announcing its financial results for the quarter ended March 31, 2005

Form 8-K filed on June 14, 2005 reporting item 1.01, Entry Into a Material Definitive Agreement, that on June 10, 2005, the stockholders approved amendments to the 2005 Employee Stock Purchase Plan and the 2005 Employee Stock and Incentive Plan.

Table of Contents

SIGNATURES

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

Date: August 15, 2005

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

INDEX TO EXHIBITS

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THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of the ___ day of June, 2005 by and between **CONGRESS FINANCIAL CORPORATION (SOUTHWEST)**, a Texas corporation ("Lender"), and **SUPPLIES DISTRIBUTORS, INC.**, a Delaware corporation ("Borrower").

WHEREAS, Borrower and Lender are parties to that certain Loan and Security Agreement dated as of March 29, 2002 as amended by that certain First Amendment to Loan and Security Agreement dated as of April 20, 2004 and by that certain Second Amendment to Loan and Security Agreement dated as of December 21, 2004 (as amended from time to time, the "Loan Agreement");

WHEREAS, Borrower and Lender desire to amend the Loan Agreement in the manner provided below;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I.
DEFINITIONS

Section 1.01. Definitions. Capitalized terms used in this Amendment, to the extent not otherwise defined herein, shall have the same meaning as in the Loan Agreement, as amended hereby.

ARTICLE II.
AMENDMENTS

Section 2.01. Amendment to Section 9.11(c) of the Loan Agreement. Effective as of the date hereof, Section 9.11(c) of the Loan Agreement is hereby amended and restated in its entirety to read as follows: "(c) the aggregate amount of all such dividends does not exceed (i) $800,000 per year for any year other than 2005, and $1,000,000 per year for 2005, plus (ii) an amount equal to the proceeds received by Borrower related to the liquidation of Business Supplies Distributors Europe BV, plus (iii) an amount equal to any cash dividends received by Borrower from Supplies Distributors SA."

ARTICLE III.
NO WAIVER

Section 3.01. No Waiver. Nothing contained in this Amendment shall be construed as a waiver by Lender of any covenant or provision of the Loan Agreement, the other documents and agreements relating hereto or thereto (hereinafter individually referred to as a "Loan Document" and collectively referred to as the "Loan Documents"), this Amendment, or of any other contract or instrument between Borrower and Lender, and the failure of Lender at any time or times hereafter to require strict performance by Borrower of any provision thereof shall not waive, affect or diminish any right of Lender to thereafter demand strict compliance therewith. Lender hereby reserves all rights granted under the Loan Agreement, the other Loan Documents, this Amendment and any other contract or instrument between Borrower and Lender.

ARTICLE IV.
CONDITIONS PRECEDENT

Section 4.01. Conditions. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived by Lender:

(a) Lender shall have received, in form and substance satisfactory to Lender in its sole discretion, (i) this Amendment, duly executed by Borrower and each of the attached Consent, Ratification and Releases duly executed by the Guarantors, and (ii) such additional documents, instruments and information as Lender or its legal counsel may request;

(b) The representations and warranties contained herein, in the Loan Agreement, as amended hereby, and/or in the other Loan Documents shall be true and correct as of the date hereof as if made on the date hereof;

(c) No default shall have occurred under the Loan Agreement and be continuing and no default shall exist under the Loan Agreement unless such default has been specifically waived in writing by Lender; and

(d) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to Lender and its legal counsel, Patton Boggs LLP.

ARTICLE V.
RATIFICATIONS, REPRESENTATIONS AND WARRANTIES

Section 5.01. Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Loan Agreement and except as expressly modified and superseded by this Amendment, the terms and provisions of the Loan Agreement are ratified and confirmed and shall continue in full force and effect.

Section 5.02. Representations and Warranties. Borrower hereby represents and warrants to Lender that (i) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith have been authorized by all requisite corporate action on the part of Borrower and will not violate the Articles of Incorporation or Bylaws of Borrower, (ii) the representations and warranties contained in the Loan Agreement, as amended hereby, and any other Loan Document are true and correct on and as of the date hereof as though made on and as of the date hereof, (iii) Borrower is in full compliance with all covenants and agreements contained in the Loan Agreement, as amended hereby, and (iv) Borrower has not amended its Articles of Incorporation or Bylaws since March 29, 2002.

ARTICLE VI.
MISCELLANEOUS

Section 6.01. Survival of Representations and Warranties. All representations and warranties made in the Loan Agreement or any other document or documents relating thereto, including, without limitation, any Loan Document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

Section 6.02. Reference to Loan Agreement. Each of the Loan Documents, including the Loan Agreement and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Loan Agreement as amended hereby, are hereby amended so that any reference in such Loan Documents to the Loan Agreement shall mean a reference to the Loan Agreement as amended hereby.

Section 6.03. Expenses of Lender. As provided in the Loan Agreement, Borrower agrees to pay all reasonable costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including without limitation the reasonable costs and fees of Lender’s legal counsel, and all reasonable costs and expenses incurred by Lender in connection with the enforcement or preservation of any rights under the Loan Agreement, as amended hereby, or any other Loan Document, including without limitation the reasonable costs and fees of Lender’s legal counsel.

Section 6.04. Severability. Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable. Furthermore, in lieu of each such invalid or unenforceable provision there shall be added automatically as a part of this Amendment a valid and enforceable provision that comes closest to expressing the intention of such invalid or unenforceable provision.

Section 6.05. **APPLICABLE LAW. THIS AMENDMENT AND ALL OTHER LOAN DOCUMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN DALLAS, TEXAS AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.**

Section 6.06. Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of Lender and Borrower and their respective successors and assigns, except Borrower may not assign or transfer any of its rights or obligations hereunder without the prior written consent of Lender.

Section 6.07. Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

Section 6.08. Effect of Waiver. No consent or waiver, express or implied, by Lender to or for any breach of or deviation from any covenant or condition of the Loan Agreement shall be deemed a consent or waiver to or of any other breach of the same or any other covenant, condition or duty.

Section 6.09. Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

Section 6.10. **NO ORAL AGREEMENTS. THE LOAN AGREEMENT 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 BETWEEN THE PARTIES.**

Section 6.11. RELEASE. BORROWER HEREBY ACKNOWLEDGES THAT 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. BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, 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 THE BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, 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 ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.

[Remainder of Page Intentionally Left Blank; Signature Page Follows]

IN WITNESS WHEREOF, this Amendment has been duly executed by Borrower and Lender to be effective as of the date first above written.

LENDER:	**BORROWER:**
CONGRESS FINANCIAL CORPORATION (SOUTHWEST)	SUPPLIES DISTRIBUTORS, INC.,
By: ______________________	By: ______________________
Name: ______________________	Name: ______________________
Title: ______________________	Title: ______________________
Address:	**Chief Executive Office:**
5001 LBJ Freeway, Suite 1050 Dallas, Texas 75244	500 North Central Expressway, 5th Floor Plano, Texas 75074

CONSENT, RATIFICATION AND RELEASE

Each of the undersigned hereby consents to the terms of the within and foregoing Amendment, confirms and ratifies the terms of that certain Secured Guarantee dated March 29, 2002 and that certain General Security Agreement dated March 29, 2002 each as amended from time to time and as executed by the undersigned for the benefit of Lender (the "Guaranty Documents"), and acknowledges that the Guaranty Documents are in full force and effect and ratifies the same, that the undersigned has no defense, counterclaim, set-off or any other claim to diminish the undersigned's liability under such documents, that the undersigned's consent is not required to the effectiveness of the within and foregoing Amendment, and that no consent by the undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Obligations, the Collateral, or any of the other Loan Documents. **THE UNDERSIGNED HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, 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 THE UNDERSIGNED MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, 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 ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.**

PRIORITY FULFILLMENT SERVICES, INC.

By: ____________________
Name: ____________________
Title: ____________________

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: ____________________
Name: ____________________
Title: ____________________

CONSENT, RATIFICATION AND RELEASE

The undersigned hereby consents to the terms of the within and foregoing Amendment, confirms and ratifies the terms of that certain Guarantee dated March 29, 2002 as amended from time to time and as executed by the undersigned for the benefit of Lender (the "Guaranty Documents"), and acknowledges that the Guaranty Documents are in full force and effect and ratifies the same, that the undersigned has no defense, counterclaim, set-off or any other claim to diminish the undersigned's liability under such documents, that the undersigned's consent is not required to the effectiveness of the within and foregoing Amendment, and that no consent by the undersigned is required for the effectiveness of any future amendment, modification, forbearance or other action with respect to the Obligations, the Collateral, or any of the other Loan Documents. **THE UNDERSIGNED HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS PREDECESSORS, AGENTS, 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 THE UNDERSIGNED MAY NOW OR HEREAFTER HAVE AGAINST LENDER, ITS PREDECESSORS, AGENTS, 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 ANY "LOANS", INCLUDING, WITHOUT LIMITATION, ANY CONTRACTING FOR, CHARGING, TAKING, RESERVING, COLLECTING OR RECEIVING INTEREST IN EXCESS OF THE HIGHEST LAWFUL RATE APPLICABLE, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT.**

PFSWEB, INC.

By: ____________________
Name: ____________________
Title: ____________________

EXHIBIT 10.4

AMENDMENT NO. 6
TO
AGREEMENT FOR INVENTORY FINANCING

This Amendment No. 6 (“Amendment”) to the Agreement for Inventory Financing is made as of June 22, 2005 by and among **IBM Credit LLC**, a Delaware limited liability company, formerly IBM Credit Corporation (“IBM Credit”), **Business Supplies Distributors Holdings, LLC**, a limited liability company duly organized under the laws of the state of Delaware (“Holdings”), **Supplies Distributors, Inc.** (formerly known as BSD Acquisition Corp.), a corporation duly organized under the laws of the state of Delaware (“Borrower”), **Priority Fulfillment Services, Inc.**, a corporation duly organized under the laws of the state of Delaware (“PFS”) and **PFSweb, Inc.**, a corporation duly organized under the laws of the state of Delaware (“PFSweb”) (Borrower, Holdings, PFS, PFSweb, and any other entity that executes this Agreement or any Other Document, including without limitation all Guarantors, are each individually referred to as a “Loan Party” and collectively referred to as “Loan Parties”).

RECITALS:

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

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

AGREEMENT

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

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

Section 2. Amendment.

Subject to the satisfaction of the conditions precedents set forth in Section 3 hereof, Attachment A to the Agreement for Inventory Financing 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:

The Credit Line is increased from Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000.00) to Thirty Million Five Hundred Thousand Dollars ($30,500,000.00);

Section 3. Conditions of Effectiveness of Amendment. This Amendment shall become effective upon the receipt by IBM Credit of this Amendment that shall have been authorized, executed and delivered by each of the parties hereto and IBM Credit shall have received a copy of such 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 Party 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	**SUPPLIES DISTRIBUTORS, INC.**
______________________________	______________________________
______________________________	______________________________
[PLEASE PRINT NAME & TITLE]	[PLEASE PRINT NAME & TITLE]
PRIORITY FULFILLMENT SERVICES, INC.	**PFSWEB, INC.**
______________________________	______________________________
______________________________	______________________________
[PLEASE PRINT NAME & TITLE]	[PLEASE PRINT NAME & TITLE]

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC,

By ______________________ as Managing Member

____

[PLEASE PRINT NAME & TITLE]

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

By and among IBM Credit LLC, Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., and PFSweb, Inc.,

EFFECTIVE DATE OF THIS ATTACHMENT A: June 22, 2005

SECTION I. BORROWER/LOAN PARTIES:

(A) BORROWER:	**ORGANIZATION NO. (Assigned by State of Org).**
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: (i) Thirty Million Five Hundred Thousand Dollars ($30,500,000) for the period from the date hereof until the Credit Reduction Date and (ii) on and after the Credit Reduction Date, the Credit Line shall be Twenty Two Million Five Hundred Thousand Dollars ($22,500,000). Notwithstanding the foregoing if on or after the Credit Reduction Date, IBM Credit sells a Participation to another financial institution pursuant to a Participation Agreement and sends a Participation Notice (including, without limitation, any Participation Notice sent on the Credit Reduction Date) to Borrower, then the Credit Line will be increased (effective as of the date set forth in the Participation Notice) by the amount set forth in Participation Notice (so long as the Participation Agreement remains in full force and effect) but in no event shall the Credit Line exceed Thirty Million Five Hundred Thousand Dollars ($30,500,000).

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; (2) such Products are in new and un-opened boxes, and (3) Borrower provides a detailed listing of inventory to IBM Credit and Authorized Supplier provides a quarterly evaluation of such inventory. The value to be assigned to such inventory shall be based upon the Authorized Supplier’s evaluation of the inventory, acceptable to IBM Credit in its sole discretion,

(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 1.0%

(D) Product Financing Period: 90 days

(E) Collateral Insurance Amount: Twenty Seven Million Five Hundred Thousand Dollars ($27,500,000.00)

(F) PRO Finance Charge: Prime Rate Plus 1.0%

(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 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:

	Covenant	Covenant Requirement
(i)	Revenue on an Annual Basis* (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital * Annualized Revenue from intercompany sales are excluded from this calculation.	Greater than Zero and Equal to or Less than 43.0:1.0
(ii)	Net Profit after Tax to Revenue** **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.	Equal to or Greater than 0.20 percent
(iii)	Total Liabilities to Tangible Net Worth*** ***Accumulated earnings and 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.	Greater than Zero and Equal to or Less than 7.0:1.0

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:

	Covenant	Covenant Requirement
(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 43.0:1.0
(ii)	Net Profit after Tax to Revenue* *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.	Equal to or Greater than 0.15 percent
(iii)	Total Liabilities to Tangible Net Worth	Greater than Zero and Equal to or Less than 8.0:1.0

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:

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

EXHIBIT 10.5

FIRST AMENDMENT TO FIRST AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO FIRST AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (herein called this "Amendment") made as of the 30th day of June, 2005 by and between Priority Fulfillment Services, Inc. ("Borrower") and Comerica Bank ("Bank"),

W I T N E S S E T H:

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

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

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

ARTICLE I.

Definitions and References

§à 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 First Amendment to First Amended and Restated Loan and Security Agreement.

"Loan Agreement" means the Original Agreement as amended hereby.

ARTICLE II.

Amendments to Original Agreement

§ 2.1 Defined Terms.

(a) The definition of "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 $7,500,000 (inclusive of any amounts outstanding under the Letter of Credit Sublimit).

(b) Clauses (i) and (j) of the definition of "Eligible Accounts" in Exhibit A to the Original Agreement are hereby amended in their entirety to read as follows:

(i) Accounts with respect to an account debtor (other than Accenture LLP and the Designated Account Debtor), including Subsidiaries and Affiliates, whose total obligations to Borrower exceed 25% of all Accounts, to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank;

(j) Accounts with respect to which Accenture LLP is the account debtor, to the extent that its total obligations to Borrower exceed 40% of all Accounts, except as approved in writing by Bank;

(c) The existing clause (m) in the definition of "Permitted Indebtedness" is hereby redesignated as clause (n), and the following new clause (m) is hereby added to the definition:

(m) Indebtedness of Borrower incurred to guarantee trade payables owed by Supplies Distributor Canada, Inc. to IBM Canada, Inc., provided that the aggregate amount guaranteed by Borrower at any time shall not exceed $500,000;

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, (i) a counterpart of this Amendment executed and delivered by Borrower and (ii) in consideration of Bank's commitment to make Advances, a non-refundable fee in the amount of $15,000.

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; provided Bank acknowledges that Borrower has heretofore given written notice to Bank of Borrower being named as a co-defendant along with certain former directors of Daisytek in a lawsuit regarding the transfer of certain assets of Daisytek.

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

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

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

ARTICLE V

Miscellaneous

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

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

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

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

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

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

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

PRIORITY FULFILLMENT SERVICES, INC.

By: ______________________________
Name:
Title:

COMERICA BANK

By: ______________________________
Name:
Title:

CONSENT AND AGREEMENT

PFSWEB, INC., a Delaware corporation, hereby consents to the provisions of this Amendment and the transactions contemplated herein, and hereby ratifies and confirms the Guaranty dated as of December ___, 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:

EXHIBIT 31.1

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, Mark Layton, certify that:

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

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

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

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

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

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

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

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

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

Date: August 15, 2005

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

EXHIBIT 31.2

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350

I, Tom Madden, certify that:

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

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

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

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

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

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

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

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

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

Date: August 15, 2005

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

EXHIBIT 32.1

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

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

The Quarterly Report on Form 10-Q for the period ended June 30, 2005 (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.

August 15, 2005	/s/ Mark C. Layton Mark C. Layton Chief Executive Officer
August 15, 2005	/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.