
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-28275

PFsweb, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

505 Millennium Drive, Allen, Texas
(Address of principal executive offices)

75-2837058
(I.R.S. Employer I.D. No.)

75013
(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

At May 12, 2014 there were 16,731,122 shares of registrant's common stock outstanding.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q
March 31, 2014

INDEX

	<u>Page Number</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements:	
Unaudited Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013	3
Unaudited Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013	4
Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013	5
Notes to Unaudited Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosure about Market Risk	21
Item 4. Controls and Procedures	21
<u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	21
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3. Defaults Upon Senior Securities	23
Item 4. Mine Safety Disclosure	23
Item 5. Other Information	23
Item 6. Exhibits	24
<u>SIGNATURES</u>	25

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	<u>(Unaudited)</u> <u>March 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,753	\$ 22,418
Restricted cash	169	130
Accounts receivable, net of allowance for doubtful accounts of \$410 and \$382 at March 31, 2014 and December 31, 2013, respectively	46,098	55,292
Inventories, net of reserves of \$947 and \$962 at March 31, 2014 and December 31, 2013, respectively	11,372	14,169
Other receivables	5,481	5,241
Prepaid expenses and other current assets	4,585	4,713
Total current assets	91,458	101,963
PROPERTY AND EQUIPMENT, net	26,379	27,190
OTHER ASSETS	3,021	2,883
Total assets	\$ 120,858	\$ 132,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	\$ 8,579	\$ 8,231
Trade accounts payable	27,472	34,096
Deferred revenue	8,813	8,181
Accrued expenses	21,525	25,045
Total current liabilities	66,389	75,553
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	2,440	2,876
DEFERRED REVENUE	6,948	7,491
DEFERRED RENT	5,041	5,191
Total liabilities	80,818	91,111
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$0.001 par value; 35,000,000 shares authorized; 16,653,008 and 16,540,904 shares issued at March 31, 2014 and December 31, 2013, respectively; and 16,619,541 and 16,507,437 outstanding at March 31, 2014 and December 31, 2013, respectively	17	17
Additional paid-in capital	125,505	124,522
Accumulated deficit	(87,110)	(85,300)
Accumulated other comprehensive income	1,753	1,811
Treasury stock at cost, 33,467 shares	(125)	(125)
Total shareholders' equity	40,040	40,925
Total liabilities and shareholders' equity	\$ 120,858	\$ 132,036

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

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

	Three Months Ended March 31,	
	2014	2013
REVENUES:		
Product revenue, net	\$ 21,722	\$ 25,267
Service fee revenue	27,598	28,217
Pass-through revenue	7,909	9,657
Total revenues	57,229	63,141
COSTS OF REVENUES:		
Cost of product revenue	20,516	23,515
Cost of service fee revenue	19,220	19,258
Cost of pass-through revenue	7,909	9,657
Total costs of revenues	47,645	52,430
Gross profit	9,584	10,711
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, including stock based compensation expense of \$794 and \$303 in the three months ended March 31, 2014 and 2013, respectively.	11,022	12,801
Loss from operations	(1,438)	(2,090)
INTEREST EXPENSE, net	143	218
Loss from operations before income taxes	(1,581)	(2,308)
INCOME TAX EXPENSE	229	267
NET LOSS	\$ (1,810)	\$ (2,575)
NET LOSS PER SHARE:		
Basic	\$ (0.11)	\$ (0.20)
Diluted	\$ (0.11)	\$ (0.20)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic	16,522	12,786
Diluted	16,522	12,786
COMPREHENSIVE LOSS:		
Net loss	\$ (1,810)	\$ (2,575)
Foreign currency translation adjustment	(58)	(259)
TOTAL COMPREHENSIVE LOSS	\$ (1,868)	\$ (2,834)

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

PFSWEB, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,810)	\$ (2,575)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,890	2,408
Provision for doubtful accounts	53	6
Provision for excess and obsolete inventory	13	(21)
Deferred income taxes	120	(2)
Stock-based compensation expense	794	303
Changes in operating assets and liabilities:		
Restricted cash	(7)	74
Accounts receivable	9,083	4,927
Inventories	2,772	3,832
Prepaid expenses, other receivables and other assets	(382)	77
Deferred rent	(47)	(149)
Accounts payable, deferred revenue, accrued expenses and other liabilities	(10,485)	(10,543)
Net cash provided by (used in) operating activities	2,994	(1,663)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,588)	(1,604)
Net cash used in investing activities	(1,588)	(1,604)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	628	19
Increase in restricted cash	(32)	(153)
Payments on capital lease obligations	(635)	(627)
Proceeds from long-term debt, net	28	2,486
Net cash provided by (used in) financing activities	(11)	1,725
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(60)	(133)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,335	(1,675)
CASH AND CASH EQUIVALENTS, beginning of period	22,418	19,626
CASH AND CASH EQUIVALENTS, end of period	\$ 23,753	\$ 17,951
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under long-term debt and capital leases	\$ 520	\$ 407

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

Notes to Unaudited Consolidated Financial Statements**1. OVERVIEW AND BASIS OF PRESENTATION**

PFSweb, Inc. and its subsidiaries are collectively referred to as the “Company;” “Supplies Distributors” refers to Supplies Distributors, Inc. and its subsidiaries; “Retail Connect” refers to PFSweb Retail Connect, Inc.; and “PFSweb” refers to PFSweb, Inc. and its subsidiaries and affiliates, excluding Supplies Distributors and Retail Connect.

PFSweb Overview

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

Supplies Distributors Overview

Supplies Distributors and PFSweb operate under distributor agreements with Ricoh Company Limited and Ricoh Production Print Solutions, a strategic business unit within the Ricoh Family Group of Companies, (collectively hereafter referred to as “Ricoh”) under which Supplies Distributors acts as a distributor of various Ricoh products. Substantially all of Supplies Distributors’ revenue is generated by its sale of product purchased from Ricoh.

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

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

Basis of Presentation

The interim consolidated financial statements as of March 31, 2014, and for the three months ended March 31, 2014 and 2013, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim consolidated financial statements of the Company include all adjustments necessary for a fair presentation of the Company’s financial position as of March 31, 2014, its results of operations for each of the three months ended March 31, 2014 and 2013 and its cash flows for each of the three months ended March 31, 2014 and 2013. Results of the Company’s operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data on the income statement has been reclassified to conform to the current year presentation of product and service fee revenues, each of which was previously classified as a different component of revenue on the income statement. These reclassifications had no effect on previously reported net loss, total shareholders’ equity or net cash provided by operating activities.

2. SIGNIFICANT ACCOUNTING POLICIES***Principles of Consolidation***

All intercompany balances and transactions have been eliminated in consolidation.

Notes to Unaudited Consolidated Financial Statements

Use of Estimates

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. The Company bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as the operating environment changes. These changes have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties are discussed in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 in the section entitled "Risk Factors." Based on a critical assessment of accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes the Company's consolidated financial statements are fairly stated in accordance with U.S. GAAP, and provide a fair presentation of the Company's financial position and results of operations.

Investment in Affiliates

Priority Fulfillment Services, Inc. ("PFS"), a wholly-owned subsidiary of PFSweb, Inc., has made advances to Supplies Distributors that are evidenced by a Subordinated Demand Note (the "Subordinated Note"). Under the terms of certain of the Company's debt facilities, the outstanding balance of the Subordinated Note cannot be increased to more than \$5.0 million or decreased to less than \$2.5 million without prior approval of certain of the Company's lenders. As of both March 31, 2014 and December 31, 2013, the outstanding balance of the Subordinated Note was \$3.5 million. The Subordinated Note is eliminated in the Company's consolidated financial statements.

PFS has also made advances to Retail Connect, which totaled \$11.1 million at both March 31, 2014 and December 31, 2013. Certain terms of the Company's debt facilities provide that the total advances to Retail Connect may not be less than \$2.0 million without prior approval of Retail Connect's lender, if needed. PFS has received the approval of its lender to advance incremental amounts to certain of its subsidiaries and/or affiliates, including Retail Connect, if needed, subject to certain financial covenants, as defined. PFSweb, Inc. has also advanced to Retail Connect an additional \$8.5 million as of March 31, 2014 and December 31, 2013. As of March 31, 2014, PFSweb, Inc. has approximately \$12.9 million available to be advanced to Retail Connect and/or other affiliates. All of these advances are eliminated upon consolidation.

Concentration of Business and Credit Risk

No service fee client or product revenue customer represented more than 10% of the Company's consolidated total net revenues during the three months ended March 31, 2014 or the Company's consolidated accounts receivable as of March 31, 2014.

A summary of the nonaffiliated customer and client concentrations is as follows:

	Three Months Ended March 31,	
	2014	2013
Product Revenue (as a percentage of total Product Revenue):		
Customer 1	12%	16%
Customer 2	12%	13%
Service Fee Revenue (as a percentage of total Service Fee Revenue):		
Client 1	—%	17%
Accounts Receivable (as a percentage of consolidated Accounts Receivable):		
Client 1	—%	10%

The Company currently anticipates that its product revenue from the customers identified above will decline during the next twelve months and the contractual relationship with Client 1 ended during 2013.

Notes to Unaudited Consolidated Financial Statements

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

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

As a result of certain operational restructuring of its business, Ricoh has implemented, and will continue to implement, certain changes in the sale and distribution of Ricoh products. The changes have resulted, and are expected to continue to result, in reduced revenues and profitability for Supplies Distributors.

Inventories

Inventories (all of which are finished goods) are stated at the lower of weighted average cost or market. The Company establishes inventory reserves based upon estimates of declines in values due to inventories that are slow moving or obsolete, excess levels of inventory or values assessed at lower than cost.

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

Operating Leases

The Company leases certain real estate for its warehouse, call center and corporate offices, as well as certain equipment, under non-cancelable operating leases that expire at various dates through 2024. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other similar leases. The Company recognizes escalating lease payments on a straight-line basis over the term of each respective lease with the difference between cash payments and rent expense recognized being recorded as deferred rent in the accompanying consolidated balance sheets.

Property and Equipment

The Company's property held under capital leases totaled approximately \$3.8 million and \$4.0 million, net of accumulated amortization of approximately \$4.7 million and \$4.4 million, at March 31, 2014 and December 31, 2013, respectively. Depreciation and amortization expense related to capital leases during the three months ended March 31, 2014 and 2013 was \$0.3 million and \$0.4 million, respectively.

Income Taxes

The Company records a tax provision primarily associated with state income taxes, its European and Philippines operations and its Supplies Distributors Canadian operations. The Company has recorded a valuation allowance for the majority of its net deferred tax assets, which are primarily related to its net operating loss carryforwards and certain foreign deferred tax assets.

Cash Paid for Interest and Taxes

The Company made payments for interest of approximately \$0.2 million in each of the three month periods ended March 31, 2014 and 2013. Income taxes of approximately \$19,000 and \$9,000 were paid by the Company during the three month periods ended March 31, 2014 and 2013, respectively.

Notes to Unaudited Consolidated Financial Statements

3. NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share are computed by dividing net loss by the weighted-average number of common shares outstanding for the reporting period. Stock options not included in the calculation of diluted net loss per common share for the three months ended March 31, 2014, and 2013 were 1.8 million and 2.0 million, respectively, as the effect would be anti-dilutive.

4. STOCK AND STOCK OPTIONS

In May 2013, the Company completed a private placement pursuant to which the Company sold an aggregate of 3.2 million shares of common stock, par value \$0.001 per share, at \$4.57 per share, resulting in net proceeds, after deducting offering expenses, of approximately \$14.1 million.

In May 2013, pursuant to the Company's Employee Stock and Incentive Plan, as amended and restated (the "Plan"), the Company issued Performance-Based Share Awards (as defined in the Plan) to certain of the Company's executives. Under the terms of such awards, the determination of the number of performance shares that each such individual received was subject to, and calculated by reference to, the achievement by the Company of a goal measured by a range of targeted financial performance, as defined, for 2013. Based on the 2013 results, the aggregate number of performance shares issued was 0.6 million. The performance shares are subject to four year vesting based upon continued employment and the comparative performance (on an annual and cumulative basis) of the Company's common stock on NASDAQ compared to the Russell Micro Cap Index.

On March 31, 2014, the Company issued additional Performance Shares Awards to certain of the Company's executives. Under the terms of the 2014 awards, the number of performance shares that each such individual may receive is subject to, and calculated by reference to, the achievement by the Company of a performance goal measured by a range of targeted financial performance, as defined, for 2014. The aggregate maximum number of performance shares that may be issued under the 2014 award program is 0.3 million, which are subject to four year vesting based upon continued employment, and for certain of the performance shares the comparative performance (on an annual and cumulative basis) of the Company's common stock on NASDAQ compared to the Russell Micro Cap Index.

During the three months ended March 31, 2014 the Company issued an aggregate of 95,000 options to purchase shares of common stock to directors and employees of the Company, which vest over a three-year period.

Total stock-based compensation expense was \$0.8 million and \$0.3 million for the three months ended March 31, 2014 and 2013, respectively, and was included as a component of selling, general and administrative expenses in the consolidated statements of operations.

5. VENDOR FINANCING

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of Ricoh products in the United States, providing financing for eligible Ricoh inventory and certain receivables up to \$15.0 million. The agreement has no stated maturity date and provides either party the ability to exit the facility following a 90-day notice. Given the structure of this facility and as outstanding balances, which represent inventory purchases, are repaid within twelve months, the Company has classified the outstanding amounts under this facility, which were \$8.9 million and \$9.8 million as of March 31, 2014 and December 31, 2013, respectively, as accounts payable in the consolidated balance sheets. As of March 31, 2014, Supplies Distributors had \$1.3 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. The credit facility also contains 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 is secured by certain of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$2.5 million and the Company is required to maintain a minimum shareholders' equity of \$18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 0.5% (3.75% as of March 31, 2014). The facility also includes a monthly service fee.

Notes to Unaudited Consolidated Financial Statements

6. DEBT AND CAPITAL LEASE OBLIGATIONS;

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

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Loan and security agreements		
Supplies Distributors	\$ 4,387	\$ 3,776
PFS	1,197	1,473
Master lease agreements	4,714	4,973
Other	721	885
Total	<u>11,019</u>	<u>11,107</u>
Less current portion of long-term debt	8,579	8,231
Long-term debt, less current portion	<u>\$ 2,440</u>	<u>\$ 2,876</u>

Loan and Security Agreement – Supplies Distributors

Supplies Distributors has a loan and security agreement with Wells Fargo Bank, National Association (“Wells Fargo”) to provide financing for up to \$12 million of eligible accounts receivable in the United States and Canada. As of March 31, 2014, Supplies Distributors had \$1.8 million of available credit under this agreement. The Wells Fargo facility expires on the earlier of March 2016 or the date on which the parties to the Ricoh distributor agreement no longer operate under the terms of such agreement and/or Ricoh no longer supplies products pursuant to such agreement. Borrowings under the Wells Fargo facility accrue interest at prime rate plus 0.25% to 0.75% (3.75% as of March 31, 2014) or Eurodollar rate plus 2.5% to 3.0%, dependent on excess availability and subject to a minimum of 3.0%, as defined. The interest rate as of March 31, 2014 was 3.75% for \$3.4 million of outstanding borrowings and 3.0% for \$1.0 million of outstanding borrowings. As of December 31, 2013, the interest rate was 3.75% for the outstanding borrowings. This agreement includes a monthly service fee and contains cross default provisions, various restrictions upon the ability of Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends. This agreement also contains financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as a collateralized guaranty of PFSweb. Additionally, PFS is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than \$2.5 million, may not maintain restricted cash of more than \$5.0 million and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors has entered into blocked account agreements with its banks and Wells Fargo pursuant to which a security interest was granted to Wells Fargo for all U.S. and Canadian customer remittances received in specified bank accounts.

Loan and Security Agreement – PFS

PFS has a Loan and Security Agreement (“Comerica Agreement”) with Comerica Bank (“Comerica”). The Comerica Agreement provides for up to \$20.0 million (\$17.0 million during certain non-peak months) of eligible accounts receivable financing (“Working Capital Advances”) through March 2016. The Comerica Agreement also provides for up to \$2.0 million of eligible equipment advances (“Equipment Advances”) through March 2015, with a final maturity date of September 15, 2017. As of March 31, 2014, PFS had \$16.1 million of available credit under the Working Capital Advance portion of this facility and \$2.0 million available for Equipment Advances. Effective March 31, 2014, borrowings under the Working Capital Advance portion of the Comerica Agreement accrue interest at prime rate plus 1% (4.25% at March 31, 2014) while the Equipment Advances accrue interest at prime rate plus 1.5% (4.75% at March 31, 2014). The Comerica Agreement includes a monthly service fee and contains cross default provisions and various restrictions upon PFS’ ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties (including entities directly or indirectly owned by PFSweb, Inc.), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of \$20 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement restricts the amount of the Subordinated Note receivable from Supplies Distributors to a maximum of \$5.0 million. Comerica has provided approval for PFS to advance incremental amounts subject to certain financial covenants, as defined, to certain of its subsidiaries and/or affiliates, if needed. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb, Inc.

Notes to Unaudited Consolidated Financial Statements

Factoring Agreement

Supplies Distributors' European subsidiary has a factoring agreement with BNP Paribas Fortis Factor that provides factoring for up to 7.5 million euros (approximately \$10.3 million as of March 31, 2014) of eligible accounts receivable through March 2015. This factoring agreement is accounted for as a secured borrowing. As of March 31, 2014, Supplies Distributors' European subsidiary had approximately 0.7 million euros (approximately \$1.0 million) of available credit under this agreement. Borrowings accrue interest at Euribor plus 0.7% (0.9% at March 31, 2014).

Credit Facility – Retail Connect

Retail Connect has an asset-based line of credit facility of up to \$2.0 million from Wells Fargo, through May 2014, which is collateralized by substantially all of Retail Connect's assets. Borrowings under the facility are limited to a percentage of eligible accounts receivable and inventory, up to a specified amount. Outstanding borrowings under the facility bear interest at prime rate plus 1% or Eurodollar rate plus 3.5%. There were no outstanding borrowings and no available credit under this facility as of March 31, 2014. In connection with the line of credit, Retail Connect entered into a cash management arrangement whereby Retail Connect's operating accounts are considered restricted and swept and used to repay outstanding amounts under the line of credit, if any. The credit facility restricts Retail Connect's ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb, Inc.), make investments and loans, pledge assets, make changes to capital stock ownership structure, and requires a minimum tangible net worth for Retail Connect of \$0 million, as defined. PFSweb has guaranteed all current and future obligations of Retail Connect under this line of credit. Based on current borrowing needs, the Company does not anticipate renewing this credit facility when it expires.

Debt Covenants

To the extent the Company or any of its subsidiaries fail to comply with its covenants applicable to its debt or vendor financing obligations, including the monthly financial covenant requirements, such as profitability and cash flow, and required level of shareholders' equity or net worth (as defined), the Company would be required to obtain a waiver from the lender or the lender would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral and enforcement of payment under the Company parent guarantee. Any acceleration of the repayment of the credit facilities may have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. As of March 31, 2014, the Company was in compliance with all debt covenants.

Master Lease Agreements

The Company has various agreements that provide for leasing or financing transactions of equipment and other assets and will continue to enter into such arrangements as needed to finance the purchasing or leasing of certain equipment or other assets. Borrowings under these agreements, which generally have terms of three to five years, are generally secured by the related equipment, and in certain cases, by a Company parent guarantee.

Notes to Unaudited Consolidated Financial Statements

7. SEGMENT INFORMATION

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

	Three Months Ended	
	March 31,	
	2014	2013
Revenues (in thousands):		
PFSweb	\$ 35,752	\$ 38,453
Business and Retail Connect	25,782	27,405
Eliminations	(4,305)	(2,717)
	<u>\$ 57,229</u>	<u>\$ 63,141</u>
Income (loss) from operations (in thousands):		
PFSweb	\$ (1,853)	\$ (2,547)
Business and Retail Connect	415	457
	<u>\$ (1,438)</u>	<u>\$ (2,090)</u>
Depreciation and amortization (in thousands):		
PFSweb	\$ 2,847	\$ 2,369
Business and Retail Connect	43	39
	<u>\$ 2,890</u>	<u>\$ 2,408</u>
Capital expenditures (in thousands):		
PFSweb	\$ 1,581	\$ 1,588
Business and Retail Connect	7	16
	<u>\$ 1,588</u>	<u>\$ 1,604</u>
	<u>March 31,</u>	<u>December 31,</u>
	<u>2014</u>	<u>2013</u>
Assets (in thousands):		
PFSweb	\$ 90,849	\$ 98,745
Business and Retail Connect	42,212	47,116
Eliminations	(12,203)	(13,825)
	<u>\$ 120,858</u>	<u>\$ 132,036</u>

8. COMMITMENTS AND CONTINGENCIES

The Company received municipal tax abatements in certain locations. In prior years, the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to the Company’s tax abatement. The Company disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against the Company and the timing of the related payments has not been finalized. As of March 31, 2014, the Company believes it has adequately accrued for the expected assessment.

In April 2010, a sales employee of eCOST (the former name of Retail Connect) was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately \$620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. In August 2012, the employee pleaded guilty to a misdemeanor. Neither the Company nor eCOST have been charged with any criminal activity, and the Company is seeking the recovery of the funds that are currently classified as other receivables on the March 31, 2014 financial statements. Based on the information available to date, the Company is unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or the inability of the Company to recover such funds or any significant portion thereof, or any costs and expenses incurred by the Company in connection with this matter will not have a material adverse effect upon the Company’s financial condition or results of operations.

Notes to Unaudited Consolidated Financial Statements

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

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, 2013, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our reliance on the fees generated by the transaction volume or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with International Business Machines Corporation ("IBM") and Ricoh Company Limited and Ricoh Production Print Solutions, a strategic business unit within the Ricoh Family Group of Companies, (collectively hereafter referred to as "Ricoh");
- 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 client and customer contracts;
- the impact of strategic alliances and acquisitions;
- trends in e-commerce, outsourcing, government regulation, both foreign and domestic, and the market for our services;
- whether we can continue and manage growth;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- our reliance on third-party subcontracted services;
- the unknown effects of possible system failures and rapid changes in technology;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency upon key personnel;
- the impact of new accounting standards, and changes in existing accounting rules or the interpretations of those rules;
- our ability to raise additional capital or obtain additional financing;
- our ability, and the ability of our subsidiaries, to borrow under current financing arrangements and maintain compliance with debt covenants;
- our relationship with, and our guarantees of, certain of the liabilities and indebtedness of our subsidiaries; and
- taxation on the sale of our products and provision of our services.

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee these expectations actually will be achieved. In addition, some forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expected or forecasted in such forward-looking statements.

We undertake no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future.

Overview

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

We refer to the standard PFSweb seller services financial model as the Service Fee model. In this model, our clients own the inventory and are the merchants of record and engage us to provide various business outsourcing services in support of their business operations. We derive our service fee revenues from a broad range of service offerings that include digital marketing, eCommerce technologies, order management, customer care, logistics and fulfillment, financial management and professional consulting. We offer our services as an integrated solution, which enables our clients to outsource their complete infrastructure needs to a single source and to focus on their core competencies. We currently provide infrastructure and distribution solutions to clients that operate in a range of vertical markets, including technology manufacturing, computer products, cosmetics, fragile goods, contemporary home furnishings, apparel, aviation, telecommunications, consumer electronics and consumer packaged goods, among others.

In this model, we typically charge for our services on a cost-plus basis, a percent of shipped revenue basis or a per-transaction basis, such as a per-labor hour basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors.

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

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

Finally, our Retail model allows us to purchase inventory from the client. In this model, we place the initial and replenishment purchase orders with the client and take ownership of the product upon delivery to our facility. In this model, depending on the terms of our client arrangements, we may own the inventory and the accounts receivable arising from our product sales. Under the Retail model, depending upon the product category and sales characteristics, we may require the client to provide product price protection as well as product purchase payment terms, right of return, and obsolescence protection appropriate to the product sales profile. Depending on the terms of our client arrangements in the Retail model, we record either: 1) product revenue as a component of product revenue, or 2) product revenue net of cost of product revenue as a component of service fee revenue in our consolidated statement of operations. Freight costs billed to customers are reflected as components of product revenue. This business model generally requires significant working capital, for which we have credit available either through credit terms provided by our clients or under senior credit facilities.

In general, we provide the Service Fee and Agent (or Flash) models through our PFS and Supplies Distributors subsidiaries and the Retail model through our Supplies Distributors and PFSweb Retail Connect subsidiaries.

Growth is a key element to achieving our future goals, including achieving and maintaining sustainable profitability. Growth in our Service Fee and Agent models is driven by two main elements: new client relationships and organic growth from existing clients. We focus our sales efforts on larger contracts with brand-name companies within four primary target markets, health and beauty, home goods and collectibles, fashion and consumer packaged goods, which, by nature, require a longer duration to close but also have the potential to be higher-quality and longer duration engagements.

Currently, we anticipate any growth within our Retail model would be through relationships with clients whereby the terms would allow us to record service fee revenue (product revenue net of product cost of revenue) in our consolidated statement of operations. These relationships are often driven by the sales and marketing efforts of the manufacturers and third party sales partners. As a result of certain operational restructuring of its business, Ricoh has implemented, and will continue to implement, certain changes in the sale and distribution of Ricoh products. The changes have resulted, and are expected to continue to result, in reduced product revenues and profitability under our Retail model in 2013 and beyond as compared to prior years.

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

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

Cost of product 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 vendors to cover price protection and certain special bids, the cost of products provided to replace defective product returned by customers and certain other expenses as defined under the distributor agreements.

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

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

Selling, General and Administrative expenses - consist of expenses such as compensation and related expenses for sales and marketing staff, distribution costs (excluding freight) applicable to the Supplies Distributors business and the Retail model, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses.

Monitoring and controlling our available cash balances and our expenses continues to be a primary focus. Our cash and liquidity positions are important components of our financing of both current operations and our targeted growth. To improve our cash and liquidity position, in May 2013, we sold an aggregate of 3.2 million shares of our Common Stock at \$4.57 per share, resulting in net proceeds of \$14.1 million.

Results of Operations For the Interim Periods Ended March 31, 2014 and 2013

The following table discloses certain financial information for the periods presented, expressed in terms of dollars, dollar change, percentage change and as a percentage of total revenue (in millions):

	Three Months Ended March 31,				
	2014	2013	Change	% of Net Revenues	
				2014	2013
Revenues					
Product revenue, net	\$ 21.7	\$ 25.3	\$ (3.6)	38.0%	40.0%
Service fee revenue	27.6	28.2	(0.6)	48.2%	44.7%
Pass-through revenue	7.9	9.6	(1.7)	13.8%	15.3%
Total net revenues	57.2	63.1	(5.9)	100.0%	100.0%
Cost of Revenues					
Cost of product revenue (1)	20.5	23.5	(3.0)	94.4%	93.1%
Cost of service fee revenue (2)	19.2	19.3	(0.1)	69.6%	68.2%
Pass-through cost of revenue (3)	7.9	9.6	(1.7)	100.0%	100.0%
Total cost of revenues	47.6	52.4	(4.8)	83.3%	83.0%
Product revenue gross profit	1.2	1.8	(0.6)	5.6%	6.9%
Service fee gross profit	8.4	8.9	(0.5)	30.4%	31.8%
Pass-through gross profit	—	—	—	—%	—%
Total gross profit	9.6	10.7	(1.1)	16.7%	17.0%
Selling General and Administrative expense	11.0	12.8	(1.8)	19.2%	20.3%
Loss from operations	(1.4)	(2.1)	0.7	(2.5)%	(3.3)%
Interest expense, net	0.2	0.2	—	0.3%	0.3%
Loss before income taxes	(1.6)	(2.3)	0.7	(2.8)%	(3.6)%
Income tax expense, net	0.2	0.3	(0.1)	0.4%	0.4%
Net loss	<u>\$ (1.8)</u>	<u>\$ (2.6)</u>	<u>\$ 0.8</u>	<u>(3.2)%</u>	<u>(4.0)%</u>

- (1) % of net revenues represents the percent of Product revenue, net.
(2) % of net revenues represents the percent of Service fee revenue.
(3) % of net revenues represents the percent of Pass-through revenue.

Product Revenue, net. Product revenue was \$21.7 million for the three months ended March 31, 2014, which represents a decrease of \$3.6 million or 14.0% as compared to the same quarter of the prior year. This reduction in revenue is primarily due to the operational restructuring by Ricoh of its business, which has resulted, and will continue to result, in changes in the sale and distribution of Ricoh products and lower product revenue as well as a client migrating from the Retail model to a Service Fee model in late 2013. We currently expect product revenue to continue to decline by approximately 20% as compared to the prior year to approximately \$70 million to \$75 million in 2014.

Service Fee Revenue. The decrease in service fee revenue for the three months ended March 31, 2014 as compared to the same periods of the prior year was primarily due to the conclusion or reduction of operations of several client programs during 2013 (including a client that accounted for more than 10% of our service fee revenue in the first quarter of 2013), partially offset by the impact of expanded and new client relationships that began in 2013 and 2014.

The change in service fee revenue, excluding pass-through revenue, is shown below (\$ millions):

	Three Months
Period ended March 31, 2013	\$ 28.2
New service contract relationships	2.8
Change in existing client service fees	2.6
Terminated clients not included in 2014 revenue	(6.0)
Period ended March 31, 2014	<u>\$ 27.6</u>

When considering client relationships, we define an existing client to be a client from whom we earned revenue in both the current and prior year periods, we define a new client to be a client from whom we only earned revenue in the current year period, and we define a terminated client as a client from whom we only earned revenue in the prior year period. On an annual comparison basis, our service fee revenue will continue to reflect the negative impact of the conclusion or anticipated reduction of operations of several

client programs. However, based on current client projections, we expect the reduction in revenue derived from these client programs to be more than offset by new service fee revenue generated by new or expanded client opportunities in 2014. For 2014, we are currently targeting an increase in service fee revenues of approximately 10% as compared to 2013.

Cost of Product Revenue. The cost of product revenue decreased by \$3.0 million, or 12.8%, to \$20.5 million in the three months ended March 31, 2014. The resulting gross profit margin was \$1.2 million, or 5.6% of product revenue, for the three months ended March 31, 2014 and \$1.8 million, or 6.9% of product revenue, for the comparable 2013 period. The decrease in gross profit percentage for the three months ended March 31, 2014 was primarily due to the operational restructuring of Ricoh, which resulted in a higher percentage of our product revenue generated from lower gross margin product categories and other inventory adjustments. The gross profit margin for the 2013 period includes the impact of incremental gross margin earned on product sales resulting from certain product price increases and the impact of certain incremental inventory cost reductions. We currently expect our product revenue gross profit margin to be approximately 6% in 2014.

Cost of Service Fee Revenue. Gross profit as a percentage of service fees declined to 30.4% in three month period ended March 31, 2014 from 31.8% in the same period of 2013. The gross margin percentage in both periods included the benefit of higher margin project activity. In addition, the 2013 period included an incremental benefit of \$0.6 million applicable to certain client transition related agreements.

We target to earn an overall average gross profit of 25-30% on existing and new service fee contracts, but we have accepted, and may continue to accept, lower gross margin percentages on certain contracts depending on contract scope and other factors including projected volumes. Gross margins on our service fee business are expected to be within our targeted range of 25-30% for 2014. We are focused on continuing to increase our level of higher margin service fee activity, including our professional and technology services, to help offset other lower margin activities.

Selling, General and Administrative Expenses. Selling, General and Administrative expenses for the three months ended March 31, 2014 and 2013 were \$11.0 million and \$12.8 million, respectively. As a percentage of total net revenue, selling, general and administrative expenses were 19.2% in the three months ended March 31, 2014 and 20.3% in the prior year period. The higher costs in the three months ended March 31, 2013 is primarily related to \$2.3 million of certain restructuring and related charges that did not occur in the 2014 period. Excluding these restructuring related charges, as a percent of total net revenue, selling, general and administrative expenses were 16.6% in the three months ended March 31, 2013. The increased percentage for the three month period in 2014 is primarily due to a significant reduction in product revenue between years which did not result in a corresponding level of selling, general and administrative decreases, an increase in non-cash stock compensation expense incurred in 2014 and an increase in other costs incurred to support our service fee business, including depreciation and amortization expense.

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

Liquidity and Capital Resources

During the three months ended March 31, 2014, we generated \$3.0 million of cash from operating activities, primarily due to a:

- \$9.1 million decrease in accounts receivable primarily applicable to reduced service fee revenue activity as compared to our December seasonal peak period;
- \$2.8 million decrease in inventories primarily applicable to reduced Ricoh related business volumes; and
- \$2.1 million of cash income from operations before working capital changes.

These sources of cash were partially offset by a:

- \$10.5 million decrease in accounts payable, deferred revenue, accrued expenses and other liabilities in part due to reduced inventory purchases as a result of a reduction in product revenue and reduced service fee business liabilities due to reduced business volumes following the seasonally higher fourth quarter; and
- \$0.4 million increase in prepaid expenses, other receivables and other assets primarily due to the timing of certain payments.

At March 31, 2014 and 2013, our accounts payable and accrued expenses were higher than normal operating levels due to the timing of various vendor and client reimbursement payments.

During the three months ended March 31, 2013, we used \$1.7 million of cash from operating activities, primarily due to a:

- \$10.5 million decrease in accounts payable, deferred revenue, accrued expenses and other liabilities primarily related to reduced inventory purchases as a result of a reduction in product revenue, reduced service fee business payables and accrual levels due to reduced business volumes from the seasonally higher fourth quarter, and a reduction related to timing of various vendor and client reimbursable payments.

This use of cash was partially offset by a:

- \$4.9 million decrease in accounts receivable mostly applicable to our services business following the December seasonal peak period, and
- \$3.8 million reduction in inventories primarily related to reduced product revenue.

We incurred capital expenditures of \$1.6 million in each of the three month periods ended March 31, 2014 and 2013, exclusive of \$0.5 million and \$0.4 million, respectively, of property and equipment acquired under debt and capital lease financing, which consisted primarily of payments for capitalized software costs and equipment purchases. Payments on capital leases, net of proceeds from debt, of \$0.6 million was offset by proceeds from issuance of common stock of \$0.6 million in the three months ended March 31, 2014. In the three months ended March 31, 2013, proceeds from debt, net of an increase in restricted cash and payments on capital leases, was \$1.7 million.

Capital expenditures have historically consisted of additions to upgrade our management information systems, development of customized technology solutions to support and integrate with our service fee clients and general expansion and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures to support new contracts and anticipated future growth opportunities. Based on our current client business activity and our targeted growth plans, we anticipate our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months, including costs to implement new clients, will be approximately \$9 million to \$12 million, although additional capital expenditures may be necessary to support the infrastructure requirements of new clients. To maintain our current operating cash position, a portion of these expenditures may be financed through client reimbursements, debt, operating or capital leases or additional equity. We may elect to modify or defer a portion of such anticipated investments in the event we do not obtain the financing or achieve the financial results necessary to support such investments.

During the three months ended March 31, 2014, our working capital decreased slightly to \$25.1 million from \$26.4 million at December 31, 2013 primarily due to capital expenditures and paydown of debt facilities partially offset by proceeds from issuance of common stock. 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 or entering into new debt agreements. No assurances can be given we will be successful in obtaining any additional financing or the terms thereof. We currently believe our cash position, financing available under our credit facilities and funds generated from operations will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our current debt and lease obligations, and additional loans to our subsidiaries, if necessary, for at least the next twelve months.

As described above, we have provided collateralized guarantees to secure the repayment of certain of our subsidiaries' credit facilities. Many of these facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other credit facilities and agreements. These covenants include, among others, minimum levels of net worth, profitability and cash flow (as defined) and restrictions on the ability of the borrower subsidiaries to advance funds to other borrower subsidiaries. As a result, it is possible for one or more of these borrower subsidiaries to fail to meet their respective covenants even if another borrower subsidiary otherwise has available excess funds, which, if not restricted, could be used to cure the default. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders' equity, and we are not able to obtain a waiver, the lenders would be entitled to accelerate the repayment of any outstanding credit facility obligations, and exercise all other rights and remedies, including sale of collateral and enforcement of payment under our parent guarantee. A requirement to accelerate the repayment of the credit facility obligations may have a material adverse impact on our financial condition and results of operations. We can provide no assurance we will have the financial ability to repay all such obligations. As of March 31, 2014, we were in compliance with all debt covenants. Further, non-renewal of any of our credit facilities may have a material adverse impact on our business and financial condition. We do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

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

We receive municipal tax abatements in certain locations. In prior years, we received notice from a municipality that we did not satisfy certain criteria necessary to maintain the abatements and that the municipal authority planned to make an adjustment to our tax abatement. We disputed the adjustment and such dispute has been settled with the municipality. However, the amount of additional property taxes to be assessed against us and the timing of the related payments has not been finalized. As of March 31, 2014, we believe we have adequately accrued for the expected assessment.

In April 2010, a sales employee of eCOST.com, Inc. (“eCOST”, the former name of Retail Connect) was charged with violating various federal criminal statutes in connection with the sales of eCOST products to certain customers, and approximately \$620,000 held in an eCOST deposit account was seized and turned over to the Office of the U.S. Attorney in connection with such activity. In August 2012, the employee pleaded guilty to a misdemeanor. Neither the Company nor eCOST have been charged with any criminal activity, and we are seeking the recovery of such funds, which are currently classified as other receivables in the March 31, 2014 financial statements. Based on the information available to date, we are unable to determine the amount of the loss, if any, relating to the seizure of such funds. No assurance can be given, however, that the seizure of such funds, or our inability to recover such funds or any significant portion thereof, or any costs and expenses we may incur in connection with such matter will not have a material adverse effect upon our financial condition or results of operations.

Supplies Distributors Financing

To finance its distribution of Ricoh products in the U.S., Supplies Distributors has a short-term credit facility with IBM Credit LLC (“IBM Credit”) that provides financing for up to \$15.0 million. We have provided a collateralized guarantee to secure the repayment of this credit facility. The IBM Credit facility does not have a stated maturity and both parties have the ability to exit the facility following a 90-day notice. The Company has direct vendor credit terms with Ricoh to finance Supplies Distributors European subsidiary’s inventory purchases.

Supplies Distributors also has a loan and security agreement with Wells Fargo Bank, National Association (“Wells Fargo”) to provide financing for up to \$12.0 million of eligible accounts receivables in the United States and Canada. The Wells Fargo facility expires on the earlier of March 2016 or the date on which the parties to the Ricoh distributor agreement no longer operate under the terms of such agreement and/or Ricoh no longer supplies products pursuant to such agreement. We expect to renew the facility prior to its maturity.

Supplies Distributors’ European subsidiary has a factoring agreement with BNP Paribas Fortis Factor (“BNP Paribas”) to provide factoring for up to 7.5 million Euros (approximately \$10.3 million at March 31, 2014) of eligible accounts receivables through March 2015.

These credit facilities contain cross default provisions, various restrictions upon the ability of Supplies Distributors and its subsidiaries to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans, investments and payments to related parties (including entities directly or indirectly owned by PFSweb), 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 \$2.5 million, not maintain restricted cash of more than \$5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure and a minimum shareholders’ equity of at least \$18.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or its subsidiaries under these facilities if they are unable to do so. We have also provided a guarantee of substantially all of the obligations of Supplies Distributors and its subsidiaries to IBM and Ricoh.

PFS Financing

Our PFS subsidiary has a Loan and Security Agreement (“Comerica Agreement”) with Comerica Bank, which provides for up to \$20.0 million (\$17.0 million during certain non-peak months) of eligible accounts receivable financing through March 2016. The Comerica Agreement also provides for up to \$2.0 million of eligible equipment financing (“Equipment Advances”) through March 2015. Outstanding Equipment Advances have a final maturity date of September 15, 2017. We entered into this Comerica Agreement to supplement our existing cash position and provide funding for our current and future operations, including our targeted growth. The Comerica Agreement contains cross default provisions, various restrictions upon our ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to subsidiaries, affiliates and related parties (including entities directly or indirectly owned by PFSweb), make capital expenditures, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth of \$20.0 million, as defined, a minimum earnings before interest and taxes, plus depreciation, amortization and non-cash compensation accruals, if any, as defined, and a minimum liquidity ratio, as defined. The Comerica Agreement also limits PFS’ ability to increase the subordinated loan to Supplies Distributors to more than \$5.0 million and permits PFS to advance incremental amounts to certain of its subsidiaries and/or

affiliates subject to certain financial covenants, as defined. The Comerica Agreement is secured by all of the assets of PFS, as well as a guarantee of PFSweb.

Private Placement

In May 2013, we sold 3.2 million shares of our common stock in a private transaction at \$4.57 per share, resulting in net proceeds of approximately \$14.1 million after deducting expenses.

Seasonality

The seasonality of our service fee business is dependent upon the seasonality of our clients' business and sales of their products. Accordingly, we must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix and their current business volumes, our run rate service fee business activity, which is dependent upon the business volume of our clients, will generally be highest in the quarter ended December 31. We believe our historical revenue pattern makes it difficult to predict the effect of seasonality on our future revenues and results of operations.

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

Inflation

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

Critical Accounting Policies

A description of our critical accounting policies is included in Note 2 of the consolidated financial statements in our December 31, 2013 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

Not applicable.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain a comprehensive set of disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). As of March 31, 2014, an evaluation of the effectiveness of our disclosure controls and procedures was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, these disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the period that ended on March 31, 2014, there was no change in internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 1A. Risk Factors

In addition to the risk factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the Securities and Exchange Commission on March 31, 2014, our business, financial condition and operating results could be adversely affected by any or all of the following factors.

General Risks Related to Our Business

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

As of March 31, 2014, our total credit facilities outstanding, including debt, capital lease obligations and our vendor accounts payable related to financing of Ricoh product inventory, was approximately \$20 million. We cannot provide assurance that our credit facilities will be renewed by the lending parties. Additionally, these credit facilities include both financial and non-financial covenants, many of which also include cross default provisions applicable to other agreements. These covenants also restrict our ability to transfer funds among our various subsidiaries, which may adversely affect the ability of our subsidiaries to operate their businesses or comply with their respective loan covenants. We cannot provide assurance that we will be able to maintain compliance with these covenants. Any non-renewal, default under or acceleration of any of our credit facilities may have a material adverse impact upon our business and financial condition. In addition we have provided \$3.5 million of subordinated indebtedness to Supplies Distributors as of March 31, 2014. The maximum level of this subordinated indebtedness to Supplies Distributors that may be provided without approval from our lenders is \$5.0 million. The restrictions on increasing this amount without lender approval may limit our ability to comply with certain loan covenants or grow and support Supplies Distributors' business. We have guaranteed most of the indebtedness of Supplies Distributors. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors by its lenders to the extent Supplies Distributors is unable to do so. We have also guaranteed Retail Connect's \$2.0 million credit line, as well as certain of its vendor trade payables.

Specific Risks Related to Our Business Process Outsourcing Business

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

The majority of our Supplies Distributors product revenue is generated by sales of product purchased under distributor agreements with Ricoh. These agreements are terminable at will and no assurance can be given that Ricoh will continue the distributor agreements with Supplies Distributors. Supplies Distributors does not have its own sales force and relies upon Ricoh's sales force and product demand generation activities for its sale of Ricoh product. As a result of certain operational restructuring of its business, Ricoh has implemented, and will continue to implement, certain changes in the sale and distribution of Ricoh products. The changes have resulted, and are expected to continue to result, in reduced revenues and profitability for Supplies Distributors. Further reduction in the Ricoh business may have a material adverse effect on Supplies Distributors' business and our overall financial condition.

Sales by Supplies Distributors to two customers in the aggregate accounted for approximately 24% of Supplies Distributors' total product revenue and 9% of consolidated net revenues in the three month period ended March 31, 2014. The loss of one or both of such customers, or non-payment of any material amount by these or any other customer would have a material adverse effect upon Supplies Distributors' business results of operations and financial condition.

Risks Related to Our Stock

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

As of March 31, 2014, we have an aggregate of 1.8 million stock options outstanding to employees, directors and others with a weighted average exercise price of \$5.05 per share. The shares of common stock that may be issued upon exercise of these options may be resold into the public market. In addition, based on the Company's 2013 financial results, the aggregate maximum number of common stock that may be issued for 2013 under our executive long-term incentive plan is approximately 598,000, of which approximately 150,000 are fully vested, with the balance to vest, subject to vesting conditions, over the next three years. Depending on the Company's 2014 financial results, the aggregate maximum number of common stock that may be issued for 2014 under our

executive long-term incentive plan is approximately 311,000, which will vest, subject to the vesting conditions, over four years, beginning in 2014. We have issued an aggregate of approximately 19,500 deferred stock units to members of our Board of Directors under our outside director compensation program under which the underlying shares will be issued upon the termination of service of the holder. The current and future issuance of shares of our common stock under our executive long-term incentive plan, outside director compensation program and outstanding stock options, and sales of substantial amounts of common stock in the public market following the issuance of such shares, or the perception that future sales of these shares could occur, could reduce the market price of our common stock and make it more difficult to sell equity securities in the future.

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

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Mine Safety Disclosure

Not applicable

ITEM 5. Other Information

None

ITEM 6. Exhibits

a) Exhibits:

<u>Exhibit No.</u>	<u>Description of Exhibits</u>
3.1(1)	Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.1(2)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.2(4)	Certificate of Amendment to Certificate of Incorporation of PFSweb, Inc.
3.1.3(5)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.1.4(7)	Certificate of Amendment to Amended and Restated Certificate of Incorporation of PFSweb, Inc.
3.2(1)	Amended and Restated By-Laws
3.2.1(3)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.2(6)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
3.2.3(7)	Amendment to the Amended and Restated By-Laws of PFSweb, Inc.
10.1*	Eighth Amendment to Loan and Security Agreement dated March 28, 2014, by and between Wells Fargo Bank, National Association and Supplies Distributors, Inc.
10.2*	Amendment to Agreement for Inventory Financing dated March 28, 2014 by and among Business Supplies Distributors Holdings, LLC, Supplies Distributors, Inc., Priority Fulfillment Services, Inc., PFSweb, Inc., and IBM Credit LLC.
10.3*	Fifteenth Amendment to First Amended and Restated Loan and Security Agreement dated March 31, 2014 between Priority Fulfillment Services, Inc., and Comerica Bank.
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
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.
(1)	Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657).
(2)	Incorporated by reference from PFSweb, Inc. Form 10-K for the fiscal year ended December, 31, 2005 filed on March 31, 2006.
(3)	Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on November 13, 2007.
(4)	Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on June 2, 2008.
(5)	Incorporated by reference from PFSweb, Inc. Form 10-Q filed on August 14, 2009.
(6)	Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 2, 2010.
(7)	Incorporated by reference from PFSweb, Inc. Report on Form 8-K filed on July 18, 2013.
*	Filed Herewith

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: May 15, 2014

PFSweb, Inc.

By: /s/ Thomas J. Madden

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

**EIGHTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT**

THIS EIGHTH AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment"), is dated as of March 28, 2014, by and between **WELLS FARGO BANK, NATIONAL ASSOCIATION**, acting through its Wells Fargo Business Credit operating division (as successor to Wachovia Bank, National Association which, in turn, was successor to Congress Financial Corporation (Southwest)) (the "Lender"), and **SUPPLIES DISTRIBUTORS, INC.**, a Delaware corporation ("Borrower").

WITNESSETH:

WHEREAS, Borrower and Congress Financial Corporation (Southwest) entered into that certain Loan and Security Agreement, dated as of March 29, 2002 (as amended by (i) that certain First Amendment to Loan and Security Agreement, dated as of April 20, 2004, by and between Borrower and Lender; (ii) that certain Second Amendment to Loan and Security Agreement, dated as of December 21, 2004, by and between Borrower and Lender; (iii) that certain Third Amendment to Loan and Security Agreement, dated as of June 24, 2005, by and between Borrower and Lender; (iv) that certain Fourth Amendment to Loan and Security Agreement, dated as of April 17, 2006, by and between Borrower and Lender; (v) that certain Fifth Amendment to Loan and Security Agreement, dated as of March 28, 2007, (vi) that certain Sixth Amendment to Loan and Security Agreement, dated as of January 6, 2009, (vii) that certain Seventh Amendment to Loan and Security Agreement, dated as of March 29, 2011, and as further amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"), whereunder Lender agreed to make extensions of credit from time to time to, or for the account of, Borrower;

WHEREAS, the parties hereto desire to make certain amendments to the Loan Agreement, including reducing the commitment of Lender thereunder, extending the maturity date thereof and certain other substantive changes thereto, in each instance subject to the terms, conditions and limitations set out in this Amendment;

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

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

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

(a) The definition of "EBITDA" set forth in the Loan Agreement shall be amended and restated in its entirety as follows:

"EBITDA" shall mean, at any date of determination, and for the applicable period, without duplication, the total of the following for Borrower and its subsidiaries calculated on a consolidated basis in accordance with GAAP for such period: (a) Net Income; *plus*, (b) the sum of the following, to the extent deducted in determining Net Income for the applicable period (i) interest expense, taxes, depreciation and amortization and (ii) other nonrecurring loss or expenses, amortization of intangibles and organization costs, any non-cash losses or expenses and losses attributable to foreign currency adjustments; *minus* (c) all non-cash items increasing Net Income for such period and income attributable to foreign currency adjustments for such period.

(b) Subsection (e) of the definition of "Eligible Borrower Accounts" shall be amended and restated to read in its entirety as follows:

"(e) the chief executive office or, at the Lender's option, the principal place of business of the account debtor with respect to such Accounts is located in the United States of America or Canada, or, at Lender's option, if (i) either: (A) the account debtor has delivered to Borrower an irrevocable letter of credit issued or confirmed by a bank satisfactory to Lender and payable only in the United States of America and in U.S. dollars, sufficient to cover such Account, in form and substance satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender's agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or (B) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (C) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine); or (ii) the account debtors with respect to such Accounts are foreign subsidiaries of IBM or Ricoh, such Accounts are billed in United States dollars and collected in the United States and the aggregate amount of all such Accounts, including all accounts under clause (e)(ii) of the definition Eligible Canadian Accounts, does not exceed \$500,000;

(c) Subsection (e) of the definition of “Eligible Canadian Accounts” shall be amended and restated in its entirety as follows:

“(e) the chief executive office or, at the Lender’s option, the principal place of business of the account debtor with respect to such Accounts is located in the United States of America or Canada, or, at Lender’s option, if (i) either: (A) the account debtor has delivered to Supplies Canada an irrevocable letter of credit issued or confirmed by a bank satisfactory to Lender and payable only in the United States of America and in U.S. dollars or Canadian dollars, sufficient to cover such Account, in form and substance satisfactory to Lender and, if required by Lender, the original of such letter of credit has been delivered to Lender or Lender’s agent and the issuer thereof notified of the assignment of the proceeds of such letter of credit to Lender, or (B) such Account is subject to credit insurance payable to Lender issued by an insurer and on terms and in an amount acceptable to Lender, or (C) such Account is otherwise acceptable in all respects to Lender (subject to such lending formula with respect thereto as Lender may determine); or (ii) the account debtor with respect to such Accounts is a .foreign subsidiary of IBM or Ricoh, such Accounts are billed in United States dollars or Canadian dollars and collected in the United States or Canada and the aggregate amount of all such Accounts, together with all accounts under clause (e)(ii) of the definition Eligible Borrower Accounts, does not exceed \$500,000;

(d) The definition of “Fixed Charges” set forth in the Loan Agreement shall be amended and restated in its entirety as follows:

“Fixed Charges” shall mean, for any period, the sum, without duplication, of the amounts determined for any Person during such period equal to (i) total cash interest expense (including that portion attributable to Capital Leases that is treated as interest in accordance with GAAP and capitalized interest), net of cash interest income, of such Person with respect to all outstanding Indebtedness, (ii) scheduled payments of principal on indebtedness of such Person, excluding payments of principal made hereunder, under the Agreement for Inventory Financing or under any credit facility that replaces the Agreement for Inventory Financing, (iii) the total amount of unfinanced Capital Expenditures of such Person made during such period, (iv) cash taxes paid and (v) total dividends, distributions or other payments (including amounts paid in respect of the redemption of capital stock) made to equity holders of such Person actually paid in cash (excluding dividends or distributions paid prior to March 31, 2014, in accordance with the limitations set forth in Sections 9.9 and 9.11 hereof).

(e) The definition of “Interest Rate” set forth in the Loan Agreement shall be amended and restated in its entirety as follows:

“Interest Rate” shall mean,

(a) Subject to clause (b) of this definition below:

(i) as to Prime Rate Loans, a rate per annum equal to the greater of (x) three percent (3.00%) or (y) the sum of the “Applicable Prime Rate Margin” set forth in the table below and determined based on the average Excess Availability of Borrower during the immediately preceding fiscal quarter, plus the Prime Rate,

(ii) as to Eurodollar Rate Loans, a rate per annum equal to the greater of (x) three percent (3.00%) or (y) the sum of the “Applicable Eurodollar Rate Margin” set forth in the table below and determined based on the average Excess Availability of Borrower during the immediately preceding fiscal quarter, plus the Adjusted Eurodollar Rate (in each case, based on the Eurodollar Rate applicable for the Interest Period selected by Borrower, as in effect three (3) Business Days after the date of receipt by Lender of the request of Borrower for such Eurodollar Rate Loans in accordance with the terms hereof, whether such rate is higher or lower than any rate previously quoted to Borrower).

Pricing Level	Excess Availability	Applicable Prime Rate Margin	Applicable Eurodollar Rate Margin
I	\$3,000,001 or more	0.25%	2.50%
II	\$1,000,000 to \$3,000,000	0.50%	2.75%
III	less than \$1,000,000	0.75%	3.00%

The Interest Rate shall change on the first day of each fiscal quarter of Borrower based on the average Excess Availability of Borrower during the immediately fiscal quarter; provided, however, that if average Excess Availability for the immediately preceding fiscal quarter cannot be determined, Pricing Level III shall apply from and after the first Business Day of each fiscal quarter of Borrower until such time as average Excess Availability is determined. In addition and notwithstanding the foregoing, at all times (i) either (A) during the period on and after the date of termination or non-renewal hereof until such time as all Obligations are indefeasibly paid and satisfied in full in immediately available funds, or (B) during the period from and after the date of the occurrence of any Event of Default, and for so long as such Event of Default is continuing as determined by Lender and (ii) when the Revolving Loans are outstanding in excess of the amounts available to Borrower under Section 2 (whether or not such excess(es) arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default), Pricing Level III shall apply.

(b) Notwithstanding anything to the contrary contained in clause (a) of this definition, the Interest Rate shall mean the rate of two percent (2.00%) per annum in excess of the Prime Rate as to Prime Rate Loans and the rate of four and one-quarter percent (4.25%) per annum in excess of the Adjusted Eurodollar Rate as to Eurodollar Rate Loans, at Lender's option, without notice, (i) either (A) for the period on and after the date of termination or non-renewal hereof until such time as all Obligations are indefeasibly paid and satisfied in full in immediately available funds, or (B) for the period from and after the date of the occurrence of any Event of Default, and for so long as such Event of Default is continuing as determined by Lender and (ii) on the Revolving Loans to at any time outstanding in excess of the amounts available to Borrower under Section 2 (whether or not such excess(es) arise or are made with or without Lender's knowledge or consent and whether made before or after an Event of Default).

(f) The definition of "Maximum Credit" set forth in the Loan Agreement shall be amended and restated in its entirety as follows:

"Maximum Credit" shall mean the amount of \$12,000,000.

(g) A new definition of "Ricoh" shall be added to the Loan Agreement in appropriate alphabetical order to read as follows:

"Ricoh" shall mean Ricoh Production Print Solutions LLC.

(h) Section 3.4 of the Loan Agreement is amended and restated in its entirety as follows:

3.4 Unused Line Fee. Borrower shall pay to Lender monthly an unused line fee at a rate equal to .375% per annum calculated upon the amount by which the Maximum Credit exceeds the average daily principal balance of the outstanding Revolving Loans during the immediately preceding month (or part thereof) while this Agreement is in effect and for so long thereafter as any of the Obligations are outstanding, which fee shall be payable on the first day of each month in arrears.

(i) Section 9.9(g) of the Loan Agreement shall be amended and restated in its entirety as follows:

(g) indebtedness of Borrower to PFS evidenced by that certain Subordinated Demand Note, dated September, 2001, issued by Borrower payable to PFS (the "PFS Subordinated Demand Note") which indebtedness is subject and subordinate in right of payment to the right of Lender to receive the prior final payment and satisfaction in full of all of the Obligations, and refinancings or replacements thereof subordinated at least to the same extent and otherwise on terms and conditions acceptable to Lender in its discretion; provided, that: (i) the principal amount of such indebtedness shall be satisfactory to Lender in its sole discretion, (ii) Borrower may make any payments in respect of such indebtedness in accordance with the terms of such agreement or instrument as in effect on the date hereof, provided, that, (A) no Event of Default, or event which with notice or passage of time or both would constitute an Event of Default, shall exist or have occurred and be continuing, or would occur as a result of any such payment; (B) any such payment shall not cause the total principal amount of such indebtedness to be less than \$2,500,000; and (C) the aggregate amount of Revolving Loans at the time of any such payment shall not exceed the amounts available to Borrower in accordance with Section 2.1 hereof, (iii) Borrower shall not, directly or indirectly, (A) amend, modify, alter or change any terms of such indebtedness or any agreement, document or instrument related thereto, or (B) redeem, retire, defease, purchase or otherwise acquire such indebtedness, or set aside or otherwise deposit or invest any sums for such purpose, and (iv) Borrower shall furnish to Lender all notice, demands or other materials concerning such indebtedness either received by Borrower or on its behalf, promptly after receipt thereof, or sent by Borrower or on its behalf, concurrently with the sending thereof, as the case may be; and

(j) Section 9.11 of the Loan Agreement shall be amended and restated in its entirety as follows:

"9.11 Dividends and Redemptions. Borrower shall not, directly or indirectly, declare or pay any dividends on account of any shares of class of capital stock of Borrower now or hereafter outstanding, or set aside or otherwise deposit or invest any sums for such purpose, or redeem, retire, defease, purchase or otherwise acquire any shares of any class of capital stock (or set aside or otherwise deposit or invest any sums for such purpose) for any consideration other than

common stock or apply or set apart any sum, or make any other distribution (by reduction of capital or otherwise) in respect of any such shares or agree to do any of the foregoing unless: (a) Borrower's Excess Availability shall have been not less than \$1,000,000 for each of the thirty (30) days immediately preceding the payment of such dividend; (b) Borrower's Excess Availability shall not be less than \$1,000,000 immediately after giving effect to the payment of such dividend; (c) Borrower shall have delivered to Lender a written certification of Borrower's good faith (prepared on reasonable assumptions) projection of Excess Availability indicating that Excess Availability shall be at least \$1,000,000 for each of the thirty (30) days immediately following the payment of such dividend on a pro forma basis; (d) no Event of Default shall exist after giving effect to the transactions contemplated herein and such declaration; and (e) the aggregate amount of all such dividends does not exceed (i) \$1,000,000 per year, plus (ii) an amount equal to any cash dividends received by Borrower from Business Supplies Distributors Europe BV, plus (iii) an amount equal to any cash dividends received by Borrower from Supplies Distributors SA, plus (iv) an amount equal to any cash dividends, up to \$800,000 in any year, received by Borrower from Supplies Canada."

(k) Section 9.14 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

9.14 Minimum Fixed Charge Coverage Ratio. As of the last day of each quarter, beginning with the quarter ending on March 31, 2007, the ratio of (i) EBITDA for the immediately preceding twelve (12) calendar months to (ii) Fixed Charges of Borrower for such period shall not be less than 1.0 to 1.0.

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

(a) This Agreement and the other Financing Agreements shall become effective as of the Closing Date and shall continue in full force and effect for a term ending on the earlier of the following (the "Renewal Date"): (i) March 31, 2016, or (ii) the date on which the parties to the IBM Master Distributor Agreement (or any similar agreement reached with Infoprint Solutions Company LLC ("Infoprint" or "Ricoh")) shall no longer operate under the terms of such agreement and/or IBM or Infoprint or Ricoh, as applicable, no longer supplies products pursuant to such agreement to Borrower. Unless otherwise agreed in writing by Lender and Borrower prior to the Renewal Date, this Agreement and the other Financing Agreements will terminate on the Renewal Date. In furtherance of the foregoing, on the Renewal Date (unless otherwise agreed in writing by Lender and Borrower), Borrower hereby promises (x) to pay to Lender, in full, all outstanding and unpaid Obligations and (y) to furnish cash collateral to Lender in such amounts as Lender determines are reasonably necessary to secure Lender from loss, cost, damage or expense, including attorneys' fees and legal expenses, in connection with any contingent Obligations, checks or other payments provisionally credited to the Obligations and/or as to which Lender has not yet received final and indefeasible payment. Such payments in respect of the Obligations and cash collateral shall be remitted by wire transfer in Federal funds to such bank account of Lender as Lender may, in its discretion, designate in writing to Borrower for such purpose. Interest shall be due until and including the next business day, if the amounts so paid by Borrower to the bank account designated by Lender are received in such bank account later than 12:00 noon, Dallas, Texas time.

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

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

	Amount	Period
(1)	0.50% of Maximum Credit	From March 31, 2014, to and including March 31, 2015; and
(2)	Zero (0)	From and after April 1, 2015.

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

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

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

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

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

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

(e) within forty-five (45) days following the Amendment Effective Date, the Borrower shall either (i) permanently remove all of Borrower's Accounts receivable from "Burt's Bees" from eligible status under the Borrowing Base or (ii) provide Lender with sole dominion over all proceeds collected in respect of such "Burt's Bees" accounts through the execution of one or more written agreements among the Borrower, Lender and JPMorgan Chase Bank, such agreement to be in form and substance satisfactory to Lender in its sole discretion.

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

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

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

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

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

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

SECTION 5. Extension Fee. On the date hereof, Lender shall have fully earned a fee in an amount equal to \$20,000.00, for the amendments set forth herein, which fee shall be fully due and payable on the date of execution hereof. Lender hereby is expressly authorized by Borrower to (i) charge such amount to Borrower's loan account, and (ii) designate such amount as a Revolving Loan under the Loan Agreement.

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

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

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

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

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

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

SECTION 12. Release. BORROWER HEREBY ACKNOWLEDGES THAT AS OF THE DATE HEREOF IT HAS NO DEFENSE, COUNTERCLAIM, OFFSET, CROSS-COMPLAINT, CLAIM OR DEMAND OF ANY KIND OR NATURE WHATSOEVER THAT CAN BE ASSERTED TO REDUCE OR ELIMINATE ALL OR ANY PART OF ITS LIABILITY TO REPAY THE OBLIGATIONS OR TO SEEK AFFIRMATIVE RELIEF OR DAMAGES OF ANY KIND OR NATURE FROM LENDER, ITS AFFILIATES AND PARTICIPANTS, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, AGENTS, EMPLOYEES OR ATTORNEYS. BORROWER HEREBY VOLUNTARILY AND KNOWINGLY RELEASES AND FOREVER DISCHARGES LENDER, ITS AFFILIATES AND PARTICIPANTS, AND THEIR RESPECTIVE PREDECESSORS, AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, SUCCESSORS AND ASSIGNS, FROM ALL POSSIBLE CLAIMS, DEMANDS, ACTIONS, CAUSES OF ACTION, DAMAGES, COSTS, EXPENSES, AND LIABILITIES WHATSOEVER, KNOWN OR UNKNOWN, ANTICIPATED OR UNANTICIPATED, SUSPECTED OR UNSUSPECTED, FIXED, CONTINGENT, OR CONDITIONAL, AT LAW OR IN EQUITY, ORIGINATING IN WHOLE OR IN PART ON OR BEFORE THE DATE THIS AMENDMENT IS EXECUTED, WHICH BORROWER MAY NOW OR HEREAFTER HAVE AGAINST LENDER AND ITS PREDECESSORS, AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, SUCCESSORS AND ASSIGNS, IF ANY, AND IRRESPECTIVE OF WHETHER ANY SUCH CLAIMS ARISE OUT OF CONTRACT, TORT, VIOLATION OF LAW OR REGULATIONS, OR OTHERWISE, AND ARISING FROM THE LIABILITIES, THE EXERCISE OF ANY RIGHTS AND REMEDIES UNDER THE LOAN AGREEMENT OR OTHER FINANCING AGREEMENTS, AND NEGOTIATION FOR AND EXECUTION OF THIS AMENDMENT. BORROWER HEREBY COVENANTS AND AGREES NEVER TO INSTITUTE ANY ACTION OR SUIT AT LAW OR IN EQUITY, NOR INSTITUTE, PROSECUTE, OR IN ANY WAY AID IN THE INSTITUTION OR PROSECUTION OF ANY CLAIM, ACTION OR CAUSE OF ACTION, RIGHTS TO RECOVER DEBTS OR DEMANDS OF ANY NATURE AGAINST LENDER, ITS AFFILIATES AND PARTICIPANTS, OR THEIR RESPECTIVE SUCCESSORS, AGENTS, ATTORNEYS, OFFICERS, DIRECTORS, EMPLOYEES, AND PERSONAL AND LEGAL REPRESENTATIVES ARISING ON OR BEFORE THE DATE HEREOF OUT OF OR RELATED TO LENDER’S ACTIONS, OMISSIONS, STATEMENTS, REQUESTS OR DEMANDS IN ADMINISTERING, ENFORCING, MONITORING, COLLECTING OR ATTEMPTING TO COLLECT THE OBLIGATIONS OF BORROWER TO LENDER, WHICH OBLIGATIONS WERE EVIDENCED BY THE LOAN AGREEMENT AND THE OTHER FINANCING AGREEMENTS.

[Signature page follows]

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

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

By: _____
Name: _____
Title: _____

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

By: _____
Name: _____
Title: _____

SIGNATURE PAGE TO EIGHTH AMENDMENT TO
LOAN AND SECURITY AGREEMENT

Reaffirmation of Guarantee

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

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

PFSWEB, INC.

By: _____
Name: _____
Title: _____

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: _____
Name: _____
Title: _____

Reaffirmation of Subordination Agreement

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

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

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

Reaffirmation of Security Agreement

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

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

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

Reaffirmation of Security Agreement

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

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

BUSINESS SUPPLIES DISTRIBUTORS HOLDINGS, LLC

By: _____
Name: _____
Title: _____

REAFFIRMATION OF SECURITY AGREEMENT

**AMENDMENT NO. 15
TO
AGREEMENT FOR INVENTORY FINANCING**

This Amendment No. 15 ("Amendment") to the Agreement for Inventory Financing is made as of March 28, 2014 by and among **IBM Credit LLC**, a Delaware limited liability company ("IBM Credit"), **Business Supplies Distributors Holdings, LLC**, a limited liability company duly organized under the laws of the state of Delaware ("Holdings"), **Supplies Distributors, Inc.** (formerly known as BSD Acquisition Corp.), a corporation duly organized under the laws of the state of Delaware ("Borrower"), **Priority Fulfillment Services, Inc.**, a corporation duly organized under the laws of the state of Delaware ("PFS") and **PFSweb, Inc.**, a corporation duly organized under the laws of the state of Delaware ("PFSweb") (Borrower, Holdings, PFS, PFSweb, and any other entity that executes this Agreement or any Other Document, including without limitation all Guarantors, are each individually referred to as a "Loan Party" and collectively referred to as "Loan Parties").

RECITALS:

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

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

AGREEMENT

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

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

Section 2. Amendment.

Subject to the satisfaction of the conditions precedent set forth in Section 3 hereof, the Agreement is hereby amended as of March 28, 2014 as follows:

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

"8.6. Restricted Payments. Borrower will not, directly or indirectly make any of the following payments ("Restricted Payments") without prior written consent from IBM Credit, which shall not be unreasonably delayed or denied: (i) declare or pay any dividend (other than dividends payable solely in common stock of Borrower) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Borrower or any warrants, options or rights to purchase any such capital stock or Equity Interests, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; or (ii) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than the Obligations), provided, however, that Borrower (a) may in the ordinary course of administration thereof make payments on the revolving loans made by Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit operating division (as successor to Wachovia Bank, National Association, which, in turn, was successor to Congress Financial Corporation (Southwest) ("Wells Fargo"), pursuant to the Congress Credit Agreement, as permitted by the Amended and Restated Notes Payable Subordination Agreement; (b) may pay cash dividends not to exceed one hundred percent of the prior year's net income of SDUS according to GAAP plus all cash dividends received from its subsidiaries and all previously approved amounts that have not yet been paid as long as all covenants remain in compliance.

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

- (i) Section II. Fees, Rates and Repayment Terms, subsection (A), the Credit Line is decreased from Twenty Million Dollars (\$20,000,000.00) to Fifteen Million Dollars (\$15,000,000.00);
- (ii) Section II. Fees, Rates and Repayment Terms, subsection (E), Collateral Insurance Amount: is decreased from Twenty Million Dollars (\$20,000,000.00) to Fifteen Million Dollars (\$15,000,000.00);

(iii) Section III Financial Covenants, sub-section (B) 1. (ii) is amended and restated to read as follows:

(ii) Net Profit after Tax to Revenue** Equal to or Greater than 0.10 percent

** 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.

(iv) Section III Financial Covenants, sub-section B 2. (ii) is amended and restated to read as follows:

(ii) Net Profit after Tax to Revenue* Equal to or Greater than 0.10 percent

* 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.

Section 3. Conditions of Effectiveness of Amendment. This Amendment shall become effective upon the execution by IBM Credit and each of the Loan Parties, provided that IBM Credit receives a duly authorized and executed counterpart of this Amendment from each of the Loan Parties on or prior to March 28, 2014.

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

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

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

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

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

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

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

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

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

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

IBM Credit LLC

By: _____

Print Name: _____

Title: _____

Business Supplies Distributors Holdings, LLC

By: _____ as Managing Member

By: _____

Print Name: _____

Title: _____

Supplies Distributors, Inc.

By: _____

Print Name: _____

Title: _____

Priority Fulfillment Services, Inc.

By: _____

Print Name: _____

Title: _____

PFSweb, Inc.

By: _____

Print Name: _____

Title: _____

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

EFFECTIVE DATE OF THIS ATTACHMENT A: March 28, 2014

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: Fifteen Million Dollars (\$15,000,000.00)

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

(B) Borrowing Base:

(i) 100% of the Borrower's inventory in the Borrower's possession as of the date of determination as reflected in the Borrower's most recent Collateral Management Report constituting Products (other than service parts) financed through a Product Advance by IBM Credit, so long as (1) IBM Credit has a first priority security interest in such Products and (2) such Products are in new and un-opened boxes;

(ii) 80% of price protection payments, credits, discounts, incentive payments, rebated and refunds relating to IBM Products ("Accounts") in the aggregate not to exceed Two Million Five Hundred Thousand Dollars (\$2,500,000.00) provided that (i) Borrower obtains (and provides to IBM Credit along with the monthly Collateral Management Report required under Section 7.1 (O)) from IBM written confirmation (a) acknowledging the obligation of IBM to pay such amount or that they have received the billing from the Borrower, (b) stating the date the amount is due to be paid and (c) IBM waiving its right to setoff such amounts owed to Borrower with any amount Borrower may owe to IBM, (ii) such Accounts do not remain unpaid for more than sixty (60) days from the date the obligation of IBM occurred; and (iii) such Accounts are delivered directly to IBM Credit.

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

(D) Product Financing Period: 90 days

(E) Collateral Insurance Amount: Fifteen Million Dollars (\$15,000,000.00)

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

(G) Delinquency Fee Rate: Prime Rate plus 6.500%

(I) Free Financing Period Exclusion Fee: Product Advance multiplied by 0.25%

(J) Other Charges:

(i) Monthly Service Fee: \$1,000.00

(ii) Annual Renewal Fee: \$15,000.00

SECTION III. FINANCIAL COVENANTS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(B)

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

<u>Covenant</u>	<u>Covenant Requirement</u>
(i) Revenue on an Annual Basis* (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 37.0:1.0
* Annualized Revenue from intercompany sales are excluded from this calculation.	
(ii) Net Profit after Tax to Revenue**	Equal to or Greater than 0.10 percent
** 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.	
(iii) Total Liabilities to Tangible Net Worth***	Greater than Zero and Equal to or Less than 7.0:1.0
*** Accumulated earnings and unrealized foreign currency translation adjustments applicable to Borrower's Canadian and European subsidiaries are excluded from calculation of Borrower's Total Assets and Total Net Worth.	

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

<u>Covenant</u>	<u>Covenant Requirement</u>
(i) Revenue on an Annual Basis (i.e. the current fiscal year-to-date Revenue annualized) to Working Capital	Greater than Zero and Equal to or Less than 37.0:1.0
(ii) Net Profit after Tax to Revenue*	Equal to or Greater than 0.10 percent
* Excluding all (a) income and losses applicable to foreign currency adjustments for each period but not excluding such foreign currency adjustments for annual periods that must comply with GAAP and (b) revenue from intercompany sales.	
(iii) Total Liabilities to Tangible Net Worth	Greater than Zero and Equal to or Less than 7.0:1.0

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

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

FIFTEENTH AMENDMENT TO FIRST AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

THIS FIFTEENTH AMENDMENT TO FIRST AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (herein called this "Amendment") made as March 31, 2014 by and between Priority Fulfillment Services, Inc. ("Borrower") and Comerica Bank ("Bank").

WITNESSETH:

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

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

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

ARTICLE I.
Definitions and References

§ 1.1 Terms Defined in the Original Agreement. Unless 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. The following terms when used in this Amendment shall have the meanings assigned to them in this §1.2:

"Amendment" means this Fifteenth Amendment to First Amended and Restated Loan and Security Agreement.

"Loan Agreement" means the Original Agreement as amended hereby

ARTICLE II.
Amendment to Original Agreement

§ 2.1 Definitions. The following definitions are hereby added to, or amended in their entirety in, Exhibit A to the Original Agreement as follows:

"Borrowing Base" means an amount equal to 80% of Eligible Accounts, as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower. In no event shall the Borrowing Base include the JPMC Factored Accounts. Such Accounts shall be expressly excluded in the calculation by Borrower of the Borrowing Base as reported in the Borrowing Base Certificate, determined as of the date of the Borrowing Base Certificate.

"Committed Revolving Line" means a Credit Extension of up to (i) \$20,000,000 during the period of November 1 of each year through March 31 of the following year, and (ii) \$17,000,000 during the period of April 1 of each year through October 31 of that same year, in each case inclusive of any amounts outstanding under the Letter of Credit Sublimit.

"Credit Extension" means each Advance, each Equipment Advance, the Equipment Term Loan or any other extension of credit by Bank to or for the benefit of Borrower hereunder.

"JPMC Factored Accounts" means the Accounts due from The Procter & Gamble Company, an Ohio corporation and/or its Affiliates and factored by Borrower with JPMorgan Chase Bank, N.A. on terms substantially identical in all material respects to those previously disclosed to Bank by Borrower, and which Accounts and factoring arrangement are subject to a lien waiver letter between JPMorgan Chase Bank, N.A. and Bank on terms and conditions satisfactory to Bank.

"Maximum Equipment Line Availability" means that the aggregate Equipment Advances under Tranche A and Tranche B cannot exceed \$2,000,000.

“Net Worth” means, with respect to any Person, at any date as of which the amount thereof shall be determined, such Person’s consolidated shareholders’ equity, determined in accordance with GAAP.

Clause (i) of the definition of Permitted Indebtedness (which reads “Intentionally Omitted” in the Original Agreement) is amended to read:

(i) Indebtedness, if any, arising in connection with the factoring by Borrower to JPMorgan Chase Bank, N.A. of the JPMC Factored Accounts;

Clause (h) of the definition of Permitted Liens in the Original Agreement is renumbered to be clause (i), and a new clause (h) is added as follows:

(h) Liens to secure Indebtedness described in clause (i) of the definition of Permitted Indebtedness, provided that such Liens, if any, are limited to the JPMC Factored Accounts; and

Clause (a) of the definition of Permitted Transfer in the Original Agreement is amended to read:

(a) Inventory in the ordinary course of business and JPMC Factored Accounts factored by Borrower with JPMorgan Chase Bank, N.A.;
“Pricing Addendum” means that certain Prime Referenced Rate Addendum attached hereto as Exhibit F.
“Revolving Maturity Date” means March 31, 2016.

The definition of Tangible Net Worth in the Original Agreement is hereby deleted.

“Tranche A Availability End Date” means September 30, 2014.

“Tranche B Availability End Date” means March 31, 2015.

§ 2.2 Term Loan. Section 2.1(c) of the Original Agreement respecting the Term Loan (consisting of the Existing Term Loan and the Additional Term Advance) is hereby deleted in its entirety and replaced with the following: “(c) Intentionally Omitted.”

§ 2.3 Equipment Term Loan. Section 2.1(e) of the Original Agreement respecting the Equipment Term Loan is hereby amended to read as follows:

(e) Equipment Term Loan.

(a) Bank has heretofore made a term loan (the “Equipment Term Loan”) to Borrower for equipment acquisitions. The Equipment Term Loan was advanced in two (2) tranches, herein called “Existing Tranche A” and “Existing Tranche B.”

(b) Interest accrues on the Equipment Term Loan at the rate specified in Section 2.3(a), and shall be payable in accordance with Section 2.3(c). The Existing Tranche A is payable in 36 equal installments of principal, plus all accrued interest, beginning on May 15, 2012, and continuing on the same day of each month thereafter until April 15, 2015, at which time all amounts due in connection with the Existing Tranche A shall be immediately due and payable. The Existing Tranche B is payable in 28 equal monthly installments of principal, plus all accrued interest, beginning on January 15, 2013, and continuing on the same day of each month thereafter through April 15, 2015, at which time all amounts due in connection with the Existing Tranche B shall be immediately due and payable. The Equipment Term Loan, once repaid, may not be reborrowed. Borrower may prepay the Equipment Term Loan, or any portion thereof, without penalty or premium.

§ 2.4 Equipment Advances. Section 2.1(f) of the Original Agreement respecting the Equipment Advances is hereby amended to read as follows:

(f) Equipment Advances.

(i) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make advances (each an “Equipment Advance” and, collectively, the “Equipment Advances”) to Borrower in two tranches, Tranche A and Tranche B. Borrower may request Equipment Advances under Tranche A at any time from the date hereof through the Tranche A Availability End Date. Borrower may request Equipment Advances under Tranche B at any time from the Tranche A Availability End Date through the Tranche B Availability End Date. The aggregate outstanding amount at any time of Tranche A Equipment Advances and Tranche B Equipment Advances shall not exceed the Maximum Equipment Line Availability. Each Equipment Advance shall not exceed 100% of the invoice amount of equipment and software approved by Bank from time to time (which Borrower shall, in any case, have purchased within 90 days of the date of the corresponding Equipment Advance), excluding taxes, shipping, warranty charges, freight discounts and installation expense.

(ii) Interest shall accrue from the date of each Equipment Advance at the rate specified in Section 2.3(a), and shall be payable in accordance with Section 2.3(c). Any Equipment Advances that are outstanding under Tranche A on the Tranche A Availability End Date shall be payable in 30 equal monthly installments of principal, plus all accrued interest, beginning on October 15, 2014, and continuing on the same day of each month thereafter through March 15, 2017, at which time all amounts due in connection with Tranche A Equipment Advance made under this Section 2.1(f) shall be immediately due and payable. Any Equipment Advances that are outstanding under Tranche B on the Tranche B Availability End Date shall be payable in 30 equal monthly installments of principal, plus all accrued interest, beginning on April 15, 2015, and continuing on the same day of each month thereafter through September 15, 2017, at which time all amounts due in connection with Tranche B Equipment Advance made under this Section 2.1(f) and any other amounts due under this Agreement shall be immediately due and payable. Equipment Advances, once repaid, may not be reborrowed. Borrower may prepay any Equipment Advances, in whole or in part, without penalty or premium. Partial prepayments hereunder shall be applied to the installments hereunder in the inverse order of their maturities without reamortization of the repayment schedule for the remaining principal balance.

(iii) When Borrower desires to obtain an Equipment Advance, Borrower shall notify Bank (which notice shall be irrevocable) by facsimile or electronic mail transmission to be received no later than 3:00 p.m. Central time on the day on which the Equipment Advance is to be made. Such notice shall be substantially in the form of Exhibit C. The notice shall be signed by a Responsible Officer or its designee and include a copy of the invoice for any Equipment to be financed.

§ 2.5 Interest Rates, Payments and Calculations. Section 2.3 of the Original Agreement respecting interest rates, payments and calculations is hereby amended to read as follows:

2.3 Interest Rates, Payments, and Calculations.

(a) Interest Rates.

(i) Advances. Advances shall bear interest, on the outstanding daily balance thereof, on the terms set forth in the Pricing Addendum.

(ii) Equipment Advances. The Equipment Advances shall bear interest, on the outstanding daily balance thereof, on the terms set forth in the Pricing Addendum.

(iii) Standby Letter of Credit. Any drawn amount under the Standby Letter of Credit shall bear interest, on the outstanding daily balance thereof, at the rates set forth in the Reimbursement Agreement.

(b) Payments. Interest hereunder shall be due and payable on the 15th of each month during the term hereof. Bank shall, at its option, charge such interest, all Bank Expenses, and all Periodic Payments against any of Borrower's deposit accounts or against the Committed Revolving Line, in which case those amounts shall thereafter accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

§ 2.6 Fees. Section 2.5 of the Original Agreement respecting the fees is hereby amended to read as follows:

2.5 Fees. Borrower shall pay to Bank the following:

(a) Facility Fee. On the Closing Date, a Facility Fee equal to \$40,000, which shall be nonrefundable;

(b) Unused Facility Fee. A quarterly Unused Facility Fee equal to forty-three and three-quarters (43.75) basis points per annum of the difference between the Committed Revolving Line and the average outstanding principal balance of the Advances under the Committed Revolving Line during the applicable quarter, which fee shall be payable within five (5) days of the last day of each such quarter and shall be nonrefundable; and

(c) Letter of Credit Fees. On the Closing Date and on each December 1 thereafter, a letter of credit fee in connection with the Standby Letter of Credit pursuant to, and in accordance with, the terms of Section 1(c) of the Reimbursement Agreement.

(d) Bank Expenses. On the Closing Date, all Bank Expenses incurred through the Closing Date, and, after the Closing Date, all Bank Expenses, as and when they become due.

§ 2.7 Borrowing Base Certificate. Clause (j) of Section 6.2 of the Original Agreement respecting delivery of the Borrowing Base Certificate is hereby amended to read as follows:

(j) within 30 days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer substantially in the form of Exhibit D hereto, together with aged listings by invoice date of accounts receivable and accounts payable, and together with listing of the JPMC Factored Accounts as to which Borrower has not received payment which listing shall be as of the date of the associated Borrowing Base Certificate and in such format and detail as Bank may reasonably require;

§ 2.8 Minimum Net Worth. Section 6.7(c) of the Original Agreement respecting minimum Tangible Net Worth is hereby amended to read as follows:

(c) Net Worth. A consolidated Net Worth of Guarantor not less than the greater of (i) \$20,000,000 or (ii) \$2,000,000 plus the amount of Net Worth of Guarantor required to be maintained pursuant to the terms of the loan documents between Borrower and Wells Fargo Bank, National Association or IBM Credit LLC, as from time to time amended, modified or restated.

§ 2.9 Borrowing Base Certificate. The form of Borrowing Base Certificate as to the Original Agreement shall be the Borrowing Base Certificate form attached to this Amendment as Exhibit D.

§ 2.10 Pricing Addendum. The Pricing Addendum to the Original Agreement shall be the Prime Referenced Rate Addendum attached to this Amendment as Exhibit E.

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) the attached Consent and Agreement executed and delivered by Guarantor.

ARTICLE IV.
Representations and Warranties

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

(a) The representations and warranties contained in Article 5 of the Original Agreement are true and correct at and as of the time of the effectiveness hereof; except to the extent such representations or warranties relate to an earlier date in which case such representation or warranty shall be true and correct as of such earlier date or as otherwise disclosed to the Bank in writing.

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

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

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

ARTICLE V.
Miscellaneous

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

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

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

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

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

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

[Remainder of this page intentionally blank]

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

PRIORITY FULFILLMENT SERVICES, INC.

By: _____
Name: _____
Title: _____

COMERICA BANK

By: _____
Name: _____
Title: _____

CONSENT AND AGREEMENT

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

PFSWEB, INC.

By: _____
Name: _____
Title: _____

Exhibit D

[BBC template to be attached]

Exhibit F

[Pricing Addendum to be attached]

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

I, Michael Willoughby, certify that:

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

Date: May 15, 2014

By: /s/ Michael Willoughby
Chief Executive Officer

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

I, Tom Madden, certify that:

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

Date: May 15, 2014

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

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

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

The Quarterly Report on Form 10-Q for the period ended March 31, 2014 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-Q.

May 15, 2014	<u>/s/ Michael Willoughby</u> Michael Willoughby Chief Executive Officer
May 15, 2014	<u>/s/ Thomas J. Madden</u> 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.