FORM S-1 · REGISTRATION STATEMENT

PFSweb Inc

IPO priced 1999-12-02 · $17.00 a share · PFSW



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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 23, 1999

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

PFSWEB, INC. (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	7389	75-2837058
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

500 NORTH CENTRAL EXPRESSWAY PLANO, TEXAS 75074 (972) 881-0733 (ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES) MARK C. LAYTON PRESIDENT AND CHIEF EXECUTIVE OFFICER PFSWEB, INC. 500 NORTH CENTRAL EXPRESSWAY PLANO, TEXAS 75074 (972) 881-0733 (NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE) COPIES TO:

MORRIS BIENENFELD, ESQ.	STEVEN R. FINLEY, ESQ.
WOLFF & SAMSON, P.A.	GIBSON, DUNN & CRUTCHER
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(973) 533-6532	(212) 351-3920
(973) 740-1407 (FAX)	(212) 351-4035 (FAX)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE. IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, CHECK THE FOLLOWING BOX. [ ] IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(B) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(C) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(D) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ] IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
COMMON STOCK, NO PAR VALUE.....	3,565,000	$14.00	$49,910,000	$13,875

(1) INCLUDES 465,000 SHARES THAT THE UNDERWRITERS HAVE THE OPTION TO PURCHASE SOLELY TO COVER OVER-ALLOTMENTS, IF ANY. (2) ESTIMATED SOLELY FOR THE PURPOSE OF COMPUTING THE AMOUNT OF THE REGISTRATION FEE PURSUANT TO RULE 457 UNDER THE SECURITIES ACT.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED SEPTEMBER 23, 1999

PROSPECTUS

3,100,000 SHARES

PFS LOGO

COMMON STOCK

THIS IS THE INITIAL PUBLIC OFFERING OF COMMON STOCK BY PFSWEB, INC. WE ARE SELLING 3,100,000 SHARES OF COMMON STOCK. THE ESTIMATED INITIAL PUBLIC OFFERING PRICE IS BETWEEN $12.00 AND $14.00 PER SHARE.

THERE IS CURRENTLY NO PUBLIC MARKET FOR THE COMMON STOCK. IN CONNECTION WITH THIS OFFERING, WE WILL APPLY TO LIST OUR COMMON STOCK ON THE NASDAQ NATIONAL MARKET UNDER THE SYMBOL "PFSW."

WE ARE CURRENTLY A SUBSIDIARY OF DAISYTEK INTERNATIONAL CORPORATION. WHEN THE OFFERING IS COMPLETED, DAISYTEK WILL OWN APPROXIMATELY 82.2% OF OUR OUTSTANDING SHARES OF COMMON STOCK.

	PER SHARE	TOTAL
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before offering expenses, to PFSweb	$	$

THE UNDERWRITERS MAY ALSO PURCHASE UP TO 465,000 ADDITIONAL SHARES OF COMMON STOCK FROM US AT THE PUBLIC OFFERING PRICE, LESS THE UNDERWRITING DISCOUNT, WITHIN 30 DAYS FROM THE DATE OF THIS PROSPECTUS TO COVER OVER-ALLOTMENTS.

DELIVERY OF THE SHARES OF COMMON STOCK WILL BE MADE ON OR ABOUT , 1999.

Investing in the Common Stock Involves Risks. See "Risk Factors" Beginning on Page 6.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

HAMBRECHT & QUIST DAIN RAUSCHER WESSELS A DIVISION OF DAIN RAUSCHER INCORPORATED WILLIAM BLAIR & COMPANY JEFFERIES & COMPANY, INC. , 1999

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Unless otherwise indicated, all references to "PFSweb," "we," "us" and "our" refer to PFSweb, Inc., a Delaware corporation, and the subsidiaries of Daisytek representing the business operations of PFSweb that will become subsidiaries of PFSweb upon completion of this offering. All references to "Daisytek" refer to Daisytek International Corporation, a Delaware corporation, and its subsidiaries.

Prospectus Summary

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the information under "Risk Factors" beginning on page 6 and the financial statements beginning on page F-1, before making an investment decision.

Our Business

We are an international provider of transaction management services for both traditional commerce and electronic commerce, or e-commerce, companies. We provide a comprehensive suite of services, including order management, customer care services, billing services, information management and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete transaction management infrastructure requirements to a single source. We currently provide transaction management services to over 30 clients that operate in a range of markets, including apparel, computer products, printers, sporting goods and consumer electronics, among others. Our clients include various divisions of IBM, Hewlett-Packard, Thomson Consumer Electronics, Nokia, Tektronix, Global Sports Interactive, American Eagle Outfitters and ISA International plc.

As the Internet has become an increasingly important communications medium, merchants and consumers have embraced using the Internet to buy and sell goods and services. International Data Corporation, or IDC, currently forecasts that the actual number of Web buyers worldwide will expand from nearly 31 million in 1998 to more than 182 million in 2003 and that the amount of worldwide commerce conducted over the Internet will increase from approximately $50 billion in 1998 to approximately $1.3 trillion in 2003. To succeed on-line, a merchant must attract customers to its Web site and provide an appealing and easy to use environment that encourages customers to place an order. Once the customer places an order, the merchant must then process the order by executing numerous transactions, such as confirming product availability, authorizing a credit card purchase, calculating sales tax, fulfilling the order and, when necessary, processing returns. These "behind the scenes" activities are critical to complete the entire transaction.

While early adopters of e-commerce business models often developed their own transaction management systems, today many on-line merchants seek to outsource their transaction management requirements. We believe that we are strategically positioned to benefit from the growing use and acceptance of e-commerce.

We offer a comprehensive suite of services, including:

- order management, including Internet shopping cart and on-line order management;

- customer care services, including Web-enabled customer care centers integrating voice, e-mail, data and chat communications;

- billing services, including secure on-line credit card processing, invoicing, credit management and collection;

- information management, including real-time data interfaces, data exchange services and data mining; and - distribution services, including inventory management, product warehousing, order picking and packing, transportation management and product return administration.

Our integrated solution enables our clients to focus on their core business, products and services instead of making substantial investments in transaction management infrastructure and ongoing personnel. Additionally, our services enable our clients to quickly capitalize on new business opportunities, provide an improved experience for their customers, improve operating efficiencies and cash flows and access sophisticated technology infrastructure.

Our objective is to grow rapidly by being an international provider of business-to-business and business-to-consumer transaction management services for both traditional and e-commerce businesses. The key elements of our business strategy are to:

- target clients with major brand names;

- expand existing client relationships;

- promote our PFSweb brand;

- seek strategic alliances and acquisitions; and - expand our international presence.

Our Relationship with Daisytek

We are currently a subsidiary of Daisytek International Corporation, one of the world's largest wholesale distributors of non-paper consumable computer supplies and professional video and audio tape products. Our business unit was formed in 1991 to leverage Daisytek's core competencies in customer service, order management, product fulfillment and distribution. Since 1996, the operations of our business unit have been primarily focused in several Daisytek subsidiaries operating collectively as Priority Fulfillment Services, Inc. ("PFS"). After the completion of this offering, Daisytek will own approximately 82.2% of the outstanding shares of our common stock, or approximately 80.1% if the underwriters exercise their over-allotment option in full. Daisytek has announced that it plans to effect the complete separation of PFSweb from Daisytek sometime in mid-2000 (and within one year of the closing of this offering) through a pro rata distribution to its common stockholders of all of the shares of our common stock which Daisytek then holds (which is also known as a "spin-off"). There are, however, various conditions to the completion of the spin-off, and we cannot assure you as to whether or when it will occur.

Upon completion of this offering we will enter into a number of agreements with Daisytek relating to our business and our proposed spin-off from Daisytek. Under these agreements, Daisytek will continue to provide us with certain administrative services and facilities, and we will provide Daisytek with transaction management services for its U.S. wholesale consumable computer supplies business. See "Certain Transactions" and "Risk Factors -- Risks Related to Daisytek".

We were incorporated in Delaware in 1999 to be, upon completion of this offering, the parent holding company for PFS. Our principal executive offices are located at 500 North Central Expressway, Plano, Texas 75074, and our telephone number is 972-881-0733.

We maintain a Web site at www.pfsweb.com, and Daisytek maintains a Web site at www.daisytek.com. Information contained on these Web sites does not constitute part of this prospectus and is not incorporated by reference in this prospectus.

The Offering

Common stock offered by PFSweb..... 3,100,000 shares Common stock to be outstanding after the offering..... 17,405,000 shares

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Use of proceeds.................   - to repay an intercompany payable to
                                     Daisytek ($     million as of October 31,
                                     1999);
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- to acquire certain assets from Daisytek of approximately $ million;

- for presently anticipated capital expenditures of $ million; and - the balance of the proceeds for general working capital and possible acquisitions. See "Use of Proceeds."

Proposed Nasdaq National Market symbol..... "PFSW" Unless otherwise noted, the information in this prospectus assumes the underwriters do not exercise their option to purchase an additional 465,000 shares of common stock from us to cover over-allotments. The number of outstanding shares used in this prospectus is 17,405,000 and excludes 1,376,500 shares of common stock issuable upon exercise of outstanding options and 4,623,500 shares of common stock available for the future grant of stock options under our stock option plans.

Fiscal Year

Our fiscal year and Daisytek's fiscal year ends on March 31 of each year. All references to fiscal years in this prospectus refer to the fiscal years ending in the indicated calendar years. For example, "fiscal 1999" refers to the fiscal year ended March 31, 1999.

Pro Forma and Supplemental Pro Forma Financial Information

Our historical financial statements reflect our operations and client agreements prior to the following transactions. As of October 1, 1999, we have restructured our arrangements with IBM, one of our key clients, so that the transaction management services we provide for IBM will no longer include purchasing and reselling IBM product inventory, but instead will be reflected as service fees. In addition, upon completion of this offering, we will enter into a transaction management services agreement with Daisytek and begin recording service fee revenue under this agreement. Our historical financial statements, therefore, may not provide a meaningful basis for analyzing our business in the future. To assist in evaluating our ongoing business, we have provided the following pro forma and supplemental pro forma financial information.

The column labeled "pro forma" shows how our historical financial data would reflect:

- the reclassification of Daisytek's net investment as common stock and additional paid-in-capital;

- the issuance of 3,100,000 shares of common stock in this offering and the anticipated application of the net proceeds; and - the incremental cost we expect to incur as a stand-alone publicly traded company.

The column labeled "supplemental pro forma" shows how the pro forma financial data would reflect what our results would have been:

- under our prior IBM agreements if we had received service fees instead of purchasing IBM products and reselling them;

- if we had performed transaction management services and recorded service fee revenue for our business with Daisytek under our new agreement; and - if we had acquired certain assets and liabilities from Daisytek as part of our separation from Daisytek.

Summary Financial Data (In Thousands, Except Per Share Data)

FISCAL YEAR ENDED MARCH 31, 1999 SUPPLEMENTAL ACTUAL PRO FORMA PRO FORMA (UNAUDITED)

COMBINED STATEMENT OF OPERATIONS DATA:			
Revenues:			
Product revenue	$ 93,702	$ 93,702	$ --
Service fee revenue	7,547	7,547	31,510
Total revenues	101,249	101,249	31,510
Gross profit	7,591	7,591	12,984
Income (loss) from operations	1,032	(1,277)	4,352
Net income (loss)	$ 385	$ (428)	$ 2,943
PER SHARE DATA:			
Net income (loss) per share:			
Basic and diluted	$ 0.03	$ (0.02)	$ 0.17
Weighted average number of shares outstanding:			
Basic and diluted	14,305	17,405	17,405

THREE MONTHS ENDED JUNE 30, 1999 SUPPLEMENTAL ACTUAL PRO FORMA PRO FORMA (UNAUDITED)

COMBINED STATEMENT OF OPERATIONS DATA:			
Revenues:			
Product revenue	$32,620	$32,620	$ --
Service fee revenue	3,191	3,191	9,250
Total revenues	35,811	35,811	9,250
Gross profit	2,787	2,787	3,423
Income (loss) from operations	(1)	(597)	307
Net income (loss)	$ (198)	$ (335)	$ 271
PER SHARE DATA:			
Net income (loss) per share:			
Basic and diluted	$ (0.01)	$ (0.02)	$ 0.02
Weighted average number of shares outstanding:			
Basic and diluted	14,305	17,405	17,405

JUNE 30, 1999 SUPPLEMENTAL ACTUAL PRO FORMA PRO FORMA (UNAUDITED)

COMBINED BALANCE SHEET DATA:			
Working capital	$20,819	$20,839	$13,181
Total assets	67,967	67,987	39,455
Long-term obligations	37,349	1,870	260
Shareholders' equity	466	35,965	35,965

Summary Financial Information

The following table presents summary combined financial data for PFSweb. The data presented in this table are derived from the historical combined financial statements and notes thereto that are included elsewhere in this prospectus. You should read those sections for a further explanation of the financial data summarized here.

Our historical financial information may not necessarily reflect our results of operations or financial position in the future or what our results of operations and financial position would have been had we operated as a separate, stand-alone entity during the periods presented.

FISCAL YEARS ENDED MARCH 31, 1999 SUPPLEMENTAL 1997 1998 ACTUAL PRO FORMA PRO FORMA (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

COMBINED STATEMENT OF OPERATIONS DATA:					
Revenues:					
Product revenue.....	$16,543	$45,804	$ 93,702	$ 93,702	$ --
Service fee revenue...	1,034	3,539	7,547	7,547	31,510
Total revenues.....	17,577	49,343	101,249	101,249	31,510
Gross profit.....	1,213	3,743	7,591	7,591	12,984
Income (loss) from operations.....	155	98	1,032	(1,277)	4,352
Net income (loss).....	$ 34	$ (38)	$ 385	$ (428)	$ 2,943
PER SHARE DATA:					
Net income (loss) per share:					
Basic and diluted.....	$ 0.00	$ (0.00)	$ 0.03	$ (0.02)	$ 0.17
Weighted average number of shares outstanding:					
Basic and diluted.....	14,305	14,305	14,305	17,405	17,405

THREE MONTHS ENDED JUNE 30, 1999 SUPPLEMENTAL 1998 ACTUAL PRO FORMA PRO FORMA (IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)

COMBINED STATEMENT OF OPERATIONS DATA:				
Revenues:				
Product revenue.....	$20,424	$32,620	$32,620	$ --
Service fee revenue...	1,004	3,191	3,191	9,250
Total revenues.....	21,428	35,811	35,811	9,250
Gross profit.....	1,249	2,787	2,787	3,423
Income (loss) from operations.....	95	(1)	(597)	307
Net income (loss).....	$ 25	$ (198)	$ (335)	$ 271
PER SHARE DATA:				
Net income (loss) per share:				
Basic and diluted.....	$ 0.00	$ (0.01)	$ (0.02)	$ 0.02
Weighted average number of shares outstanding:				
Basic and diluted.....	14,305	14,305	17,405	17,405

JUNE 30, 1999 SUPPLEMENTAL ACTUAL PRO FORMA PRO FORMA (IN THOUSANDS) (UNAUDITED)

COMBINED BALANCE SHEET DATA:			
Working capital.....	$20,819	$20,839	$13,181
Total assets.....	67,967	67,987	39,455
Long-term obligations.....	37,349	1,870	260
Shareholders' equity.....	466	35,965	35,965

Risk Factors

You should carefully consider the risks and uncertainties described below before making an investment decision. Our business, financial condition and operating results could be adversely affected by any of the following factors, in which event the trading price of our common stock could decline, and you

could lose part or all of your investment. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that we currently think are immaterial, may also impair our business operations.

Risks Related to Our Business

OUR REVENUE IS DEPENDENT UPON OUR CLIENTS' BUSINESS AND PRODUCT SALES; MANY OF OUR CLIENT AGREEMENTS ARE TERMINABLE AT WILL.

Our revenue is primarily transaction based and will fluctuate with the volume of transactions or level of sales of the products by our clients for which we provide transaction management services. If we dedicate significant resources to clients whose business does not generate substantial transactions or whose products do not generate substantial customer sales, our business may be materially adversely affected. In addition, many of our agreements with our clients are terminable by either party without cause. Therefore, we cannot assure you that any of our clients will continue to use our services for any period of time.

WE ANTICIPATE INCURRING SIGNIFICANT EXPENSES IN THE FORESEEABLE FUTURE WHICH MAY REDUCE OUR PROFITABILITY.

In order to reach our business growth objectives, we expect to incur significant operating and marketing expenses, as well as capital expenditures, during the next several years. We also expect to incur significant expenses in connection with the spin-off of our company from Daisytek. In order to offset these expenses, we will need to generate significant additional revenue. We cannot assure you that we will generate sufficient revenue to be profitable or that we will be able to sustain or increase profitability on a quarterly or an annual basis in the future. If our revenue grows more slowly than we anticipate or if our operating and marketing expenses exceed our expectations, our business would be materially adversely affected.

Our Systems May Not Accommodate Significant Growth in Our Number of Clients.

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

BECAUSE WE MUST ALWAYS HAVE SUFFICIENT CAPACITY, WE MAY ENTER INTO DISADVANTAGEOUS CONTRACTS.

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

We Face Competition from Many Sources That Could Adversely Affect Our Business.

Many companies offer, on an individual basis, one or more of the same services as we do, and many of our competitors have greater financial, distribution and marketing resources than we do. These competitors can use their greater resources to expand their sales efforts, lower prices or increase their range of services to include all the services we offer. In many instances, our competition is the in-house operations of our potential clients themselves. We cannot be certain that we will be able to compete successfully against these or other competitors who may enter the market in the future.

OUR SALES AND IMPLEMENTATION CYCLES ARE HIGHLY VARIABLE AND MAY CAUSE OUR OPERATING RESULTS TO VARY WIDELY.

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

WE ARE DEPENDENT ON OUR KEY PERSONNEL, AND WE NEED TO HIRE AND RETAIN SKILLED PERSONNEL TO SUSTAIN OUR BUSINESS.

Our performance is highly dependent on the continued services of our executive officers and other key personnel, the loss of any of whom could materially adversely affect our business. We currently do not have employment agreements with any of our executive officers or key personnel. In addition, we need to attract and retain other highly-skilled technical and managerial personnel for whom there is intense

competition. We cannot assure you that we will be able to attract and retain the personnel necessary for the continuing growth of our business. Our inability to attract and retain qualified technical and managerial personnel would materially adversely affect our business.

We Are Subject to Risks Associated with Our International Operations.

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

- changing regulatory requirements;

- legal uncertainty regarding foreign laws, tariffs and other trade barriers;

- political instability;

- potentially adverse tax consequences; and - foreign currency fluctuations.

We cannot assure you that one or more of these factors will not materially adversely affect our business.

WE ARE UNCERTAIN ABOUT OUR NEED FOR AND THE AVAILABILITY OF ADDITIONAL FUNDS BEYOND THE FUNDS RAISED IN THIS OFFERING.

Our future capital needs are difficult to predict. We may require additional capital in order to take advantage of unanticipated opportunities, including strategic alliances and acquisitions, or to respond to changing business conditions and unanticipated competitive pressures. Additionally, funds from operations may be less than anticipated. Should these circumstances arise, we may need to raise additional funds either by borrowing money or issuing additional equity. We cannot assure you that we will be able to raise such funds on favorable terms or at all. In addition, although historically we have relied upon Daisytek as our source of funds, Daisytek is not required to provide us with funding in the future, and we will be restricted from borrowing from Daisytek following the spin-off. If we are unable to obtain additional funds, we may be unable to take advantage of new opportunities or take other actions that otherwise might be important to our business.

WE MAY ENGAGE IN FUTURE STRATEGIC ALLIANCES OR ACQUISITIONS THAT COULD DILUTE OUR EXISTING STOCKHOLDERS, CAUSE US TO INCUR SIGNIFICANT EXPENSES OR HARM OUR BUSINESS.

We may review strategic alliance or acquisition opportunities that would complement our current business or enhance our technological capabilities. Integrating any newly acquired businesses, technologies or services, may be expensive and time-consuming. To finance any acquisitions, it may be necessary for us to raise additional funds through public or private financings. Additional funds may

not be available on terms that are favorable to us and, in the case of equity financings, may result in dilution to our stockholders. In addition, we have limited ability to issue capital stock prior to or after the spin-off. We may not be able to operate any acquired businesses profitably or otherwise implement our growth strategy successfully. If we are unable to integrate any newly acquired entities or technologies effectively, our operating results could suffer. Future acquisitions by us could also result in large and immediate write-offs, incurrence of debt and contingent liabilities, or amortization of expenses related to goodwill and other intangibles, any of which could harm our operating results.

OUR BUSINESS COULD BE ADVERSELY AFFECTED BY A SYSTEMS OR EQUIPMENT FAILURE, WHETHER OUR OWN OR OF OUR CLIENTS.

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

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

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

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

A Breach of Our E-commerce Security Measures Could Reduce Demand for Our Services.

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

We may be required to expend significant capital and other resources to protect against security breaches or to address any problem they may cause. Because our activities involve the storage and transmission of proprietary information, such as credit card numbers, security breaches could damage

our reputation and expose us to litigation and possible liability. Our security measures may not prevent security breaches, and failure to prevent security breaches may disrupt our operations.

Our Business and Services Are Subject to Risks Related to the Year 2000 Problem.

The "Year 2000" problems of our clients, our internal systems and companies on the Internet generally could materially adversely affect our systems or operations.

Risks Related to Daisytek

OUR BUSINESS MAY BE MATERIALLY ADVERSELY AFFECTED IF DAISYTEK DOES NOT COMPLETE THE SPIN-OFF OF OUR COMPANY.

There are various conditions which must be satisfied, or waived by Daisytek in its sole discretion, prior to the completion of the spin-off. We cannot assure you whether or when these conditions will be satisfied or waived by Daisytek. If any of these conditions are neither satisfied, nor waived by Daisytek, in a timely manner, the spin-off may not be completed. If the spin-off is not completed, we may not realize the benefits we expect to achieve in connection with the spin-off and our business may be materially adversely affected. Even if all of the conditions to the spin-off are satisfied, or waived, we cannot assure you when the spin-off will occur or whether or when we will obtain the expected benefits.

We Depend on Daisytek for Various Services and for a Significant Portion of Our Revenue.

We have historically been dependent on Daisytek for various services, including facilities, human resources, management information systems, as well as for working capital. We will enter into agreements with Daisytek under which Daisytek will continue to provide certain of these services to us. When the terms of these agreements expire, we will need either to extend the term of these agreements, engage other entities to perform these services or perform these services ourselves. We cannot assure you that Daisytek will continue to provide these services after the initial term of the agreements, or that the cost of these services will not be significantly higher if we purchase services from other parties or devote resources to handle these functions internally.

In addition, we will be providing transaction management services for Daisytek's U.S. wholesale consumable computer supplies business under a five-year agreement. For fiscal 1999, on a supplemental pro forma basis, Daisytek would have been our largest client. We currently expect that Daisytek will remain a significant client for the foreseeable future and a substantial portion of our business will be dependent upon the success of Daisytek's sales and marketing of its products. Daisytek has the right to terminate the agreement, subject to the payment of a termination fee. In addition,

Daisytek has reported that it has experienced, and expects to continue to experience, a decline in sales growth in its U.S. wholesale consumable computer supplies business. This decline may adversely affect our financial condition and results of operations.

All of our agreements with Daisytek were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of our spin-off from Daisytek. We cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

THROUGH ITS OWNERSHIP OF OUR STOCK, DAISYTEK WILL BE ABLE TO EXERT SUBSTANTIAL INFLUENCE OVER OUR MANAGEMENT AND CORPORATE AFFAIRS.

After the completion of this offering, Daisytek will own approximately 82.2% of our outstanding shares of common stock, or approximately 80.1% if the underwriters exercise their over-allotment option in full. As long as Daisytek owns a majority of our outstanding common stock, Daisytek will continue to be able to elect our entire board of directors and to remove any director, with or without cause, and generally to determine the outcome of all corporate actions requiring stockholder approval. As a result, Daisytek will be in a position to continue to control all matters affecting our company, including:

- the composition of our board of directors and, through it, any decisions with respect to the direction and policies of our company, including the appointment and removal of officers;

- any decisions with respect to mergers or other business combinations involving our company;

- the acquisition or disposition of assets by our company;

- future issuances of common stock or other securities of our company;

- the incurrence of debt by our company;

- amendments, waivers and modifications to our transaction management services agreement with Daisytek and other agreements relating to our spin-off from Daisytek;

- the payment of dividends on our common stock; and - decisions with respect to treatment of items in those of our tax returns which are consolidated or combined with Daisytek tax returns.

We May Have Potential Business Conflicts of Interest with Daisytek.

Daisytek will continue to be our largest customer for a significant period of time and, unless and until Daisytek completes the spin-off of our common stock, it will continue to be our controlling stockholder. As a result, conflicts of interest may arise between us and Daisytek in a number of areas, including:

- the nature, quality and pricing of services we provide to Daisytek;

- the nature, quality and pricing of transitional services Daisytek has agreed to provide to us;

- labor, tax, employee benefit and other matters relating to the spin-off of our company from Daisytek;

- the incurrence of debt by our company and business combinations by our company;

- sales or distributions by Daisytek of all or any portion of its ownership interest in our company; and - Daisytek's ability to control the management and affairs of our company.

We cannot assure you that we will be able to resolve any potential conflicts or that, if resolved, we would not be able to receive more favorable resolution if we were dealing with an unaffiliated party. Our transaction management services agreement with Daisytek and the other agreements we will enter into with Daisytek may be amended from time to time upon agreement between the parties. As long as we are controlled by Daisytek, we cannot assure you that Daisytek would not 10 require us to agree to an amendment to the transaction management services agreement or any other agreement that may be more or less favorable to us than the current terms of the agreement. In addition, our ability to incur indebtedness, make acquisitions and dispositions and issue stock is restricted under the terms of an agreement that we will enter into with Daisytek.

Our Directors May Have Conflicts of Interest Because They Are Also Directors of Daisytek.

After this offering, all of the members of our board of directors will also be directors of Daisytek and our chairman, chief executive officer and chief financial officer will also serve in such capacities for Daisytek. In addition, many of our executive officers, directors and employees hold shares of Daisytek common stock and options to acquire shares of Daisytek common stock. These individuals may have conflicts of interest with respect to certain decisions involving business opportunities and similar matters that may arise in the ordinary course of our business or the business of Daisytek. Conflicts, if any, could be resolved in a manner adverse to us and our stockholders, which could materially adversely affect our business, results of operations and financial condition.

We Have Potential Liability to Daisytek for Tax Indemnification Obligations.

We will indemnify Daisytek for any tax liability it suffers arising out of our actions after the spin-off that would cause the spin-off to lose its qualification as a tax-free distribution for federal income tax purposes. In the event that we are required to do so, that indemnification would have a material adverse effect on our business.

We Have Potential Liability for Daisytek's Tax Obligations.

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

We Have Limited Ability to Issue Common Stock Prior to or After the Spin-off.

In order for the spin-off to be tax-free to Daisytek and Daisytek's stockholders, we will agree not to issue additional shares of capital stock before the spin-off if it would prevent Daisytek from distributing at least 80% of our capital stock in the spin-off. Similarly, we will agree upon certain limitations during the two-year period after the spin-off, such as issuing an additional amount of our capital stock in a single transaction or series of transactions related to the spin-off which, when combined with the common stock issued in this offering, could cause a 50% or greater change in the vote or value of our outstanding capital stock. These restrictions may impede our ability to complete transactions using our capital stock or to attract qualified persons to become officers or directors.

We Have Potential Liability as a Guarantor of Daisytek's Indebtedness.

Together with several other Daisytek subsidiaries, we are a guarantor of all amounts outstanding under Daisytek's $85 million line of credit. If Daisytek should default under this line of credit, we may be required to pay under this guaranty which would have a material adverse effect on our business.

OUR HISTORICAL FINANCIAL INFORMATION MAY NOT BE REPRESENTATIVE OF OUR RESULTS AS A SEPARATE COMPANY.

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

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

We cannot assure you that the adjustments and allocations we made in preparing our historical combined financial statements appropriately reflect our operations during such periods as if we had, in fact, operated as a stand-alone entity or what the actual effect of our separation from Daisytek will be.

Accordingly, we cannot assure you that our historical results of operations are indicative of our future operating or financial performance.

Risks Related to Our Industry

IF THE TREND TOWARD OUTSOURCING DOES NOT CONTINUE, OUR BUSINESS WILL BE ADVERSELY AFFECTED.

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

OUR FUTURE GROWTH DEPENDS UPON AN INCREASE IN THE USE OF THE INTERNET AS A MEDIUM FOR E-COMMERCE.

If the use of the Internet as a commercial marketplace does not continue to grow, then our business could be materially adversely affected. The use of the Internet as a commercial marketplace is at an early stage of development. Demand and market acceptance for recently introduced products and services over the Internet are still uncertain. We cannot predict whether customers will be willing to shift their traditional activities on-line. In particular, sales of goods and services over the Internet have developed more slowly outside of the United States. The Internet may not prove to be a viable commercial marketplace for a number of reasons, including:

- concerns about security;

- Internet network congestion;

- inconsistent quality of service; and - lack of cost-effective, high-speed access.

GOVERNMENTAL REGULATIONS REGARDING THE INTERNET MAY BE ENACTED, WHICH COULD IMPEDE OUR BUSINESS.

The legal and regulatory environment that pertains to the Internet is uncertain and may change. Uncertainty and new regulations could increase our costs of doing business. The growth of the Internet may also be significantly slowed. This could delay growth in demand for our services and limit the growth of our revenue. In addition to new regulations being adopted, existing laws may be applied to the Internet.

OUR MARKET IS SUBJECT TO RAPID TECHNOLOGICAL CHANGE AND TO COMPETE WE MUST CONTINUALLY ENHANCE OUR SYSTEMS TO COMPLY WITH EVOLVING STANDARDS.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our services and the underlying network infrastructure. If we are unable to adapt to changing market conditions, client requirements or emerging industry standards, our business could be adversely affected. The Internet and e-commerce are characterized by rapid 12 technological change, changes in user requirements and preferences, frequent new product and service introductions

embodying new technologies and the emergence of new industry standards and practices that could render our technology and systems obsolete. Our success will depend, in part, on our ability to both internally develop and license leading technologies to enhance our existing services and develop new services. We must continue to address the increasingly sophisticated and varied needs of our clients and respond to technological advances and emerging industry standards and practices on a cost-effective and timely basis. The development of proprietary technology involves significant technical and business risks. We may fail to develop new technologies effectively or to adapt our proprietary technology and systems to client requirements or emerging industry standards.

Risks Related to This Offering

Absence of a Prior Public Market; Market Volatility May Affect Our Stock Price.

Prior to this offering, there has been no public market for shares of our common stock. The initial public offering price of the shares of our common stock will be determined by negotiation between representatives of the underwriters and us. This price will not necessarily reflect the market price of the common stock following this offering and you may not be able to resell your shares at or above the initial public offering price.

The market price for our common stock following this offering will be affected by a number of factors, including the following:

- the announcement of new services or service enhancements by us or our competitors;

- quarterly variations in our or our competitors' results of operations;

- changes in earnings estimates or recommendations by securities analysts;

- developments in our industry; and - general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors.

In addition, stock prices for many companies in the technology and emerging growth sectors have experienced wide fluctuations that have often been unrelated to their operating performance. These factors and fluctuations, as well as general economic, political and market conditions, may materially adversely affect the market price of our common stock.

THE SALE OF A SUBSTANTIAL NUMBER OF SHARES OF OUR COMMON STOCK AFTER THIS OFFERING MAY AFFECT OUR STOCK PRICE.

The market price of our common stock could drop as a result of sales of substantial amounts of common stock in the public market after the closing of this offering or the perception that substantial sales could occur. After this offering, Daisytek will own 14,305,000 shares of our common stock. If Daisytek distributes these shares to its stockholders, they will be eligible for immediate resale in the

public market, other than any shares held by our affiliates. In addition, upon completion of the spin-off, outstanding Daisytek options held by our employees will be converted into options to purchase our common stock. We cannot predict whether substantial amounts of our common stock will be sold in the open market in anticipation of, or following, any distribution of our shares by Daisytek to its stockholders. Daisytek has the sole discretion to determine the timing, structure and all terms of its distribution of our common stock, all of which may also affect the level of market transactions in our common stock. In addition, these factors could make it more difficult for us to raise funds through future offerings of our common stock.

PURCHASERS OF OUR COMMON STOCK IN THIS OFFERING WILL EXPERIENCE IMMEDIATE AND SUBSTANTIAL DILUTION.

The initial public offering price is substantially higher than the net tangible book value per share of our outstanding common stock immediately after this offering. Accordingly, purchasers of common stock will experience immediate and substantial net tangible book value dilution of approximately $10.94 per share, or approximately 84.2% of the offering price of $13.00 per share.

We Do Not Expect to Pay Dividends to Our Stockholders.

We have not paid any cash dividends on our common stock and anticipate for the foreseeable future that any earnings will be retained for the operation and expansion of our business.

OUR CERTIFICATE OF INCORPORATION, OUR BYLAWS AND DELAWARE LAW MAKE IT DIFFICULT FOR A THIRD PARTY TO ACQUIRE US, DESPITE THE POSSIBLE BENEFIT TO OUR STOCKHOLDERS.

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

Forward-looking Statements

We have made forward-looking statements in this prospectus. 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" 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 prospectus, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our reliance on the fees generated by the transaction volume or product sales of our clients;

- trends in the market for our services;

- trends in e-commerce;

- whether we can continue and manage growth;

- changes in the trend toward outsourcing;

- increased competition;

- effects of changes in profit margins;

- the unknown effects of possible system failures and rapid changes in technology;

- trends in government regulation; and - our relationship with and separation from Daisytek.

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. In evaluating these statements, you should consider various factors, including the risks set forth in the section entitled "Risk Factors" beginning on page 6. These factors may cause our actual results to differ materially from any forward-looking statements.

Proposed Spin-off

Our History

Our business unit was formed in 1991 as a subsidiary of Daisytek named "Working Capital of America" whose purpose was to provide inventory management, drop-shipping and accounts receivable collections for Daisytek customers and other third parties. Until 1996, our business unit was comprised of operations both at Working Capital of America and at Daisytek. Our business gradually developed as we recognized an opportunity to expand our business and capitalize on Daisytek's strengths in customer service, order management, product fulfillment and distribution, and provide these services on an outsourcing basis. Since 1996, the operations of our business unit have been primarily focused in PFS. We were formed in 1999 to be, upon completion of this offering, a holding company for PFS and to facilitate this initial public offering and spin-off from Daisytek.

Spin-off from Daisytek

Daisytek's Plan to Spin-off PFSweb After completion of this offering, Daisytek will own approximately 82.2% of the outstanding shares of our common stock, or approximately 80.1% if the underwriters exercise their over-allotment option in full. Daisytek has announced that it plans to complete the spin-off of our company sometime in mid-2000 (and within one year of the closing of this offering) by distributing all of the shares of our common stock it then holds to its stockholders. We refer to this distribution as the "spin-off."

Because there are certain conditions to effecting the spin-off, Daisytek has advised us that it has not yet definitively determined whether and when it expects to complete the spin-off. These conditions include:

- Receipt by Daisytek of a ruling by the Internal Revenue Service that, among certain other tax consequences of the transaction, the spin-off will qualify as a tax-free distribution for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek or its shareholders. Daisytek may, in its sole and absolute discretion, determine not to seek such a ruling and instead proceed on the basis of an opinion from its professional advisor, in form and substance reasonably satisfactory to it, as to the qualification of the transaction for tax-free treatment.

- Obtaining any material consents necessary to consummate the spin-off which shall be in full force and effect.

- No court orders, injunctions, decrees, regulations or other legal restraint prohibiting or restricting the completion of the spin-off shall exist.

- No events or developments shall have occurred subsequent to the closing of this offering that, in the sole judgement of Daisytek, would result in the spin-off having a materially adverse effect on Daisytek, PFSweb, or their shareholders.

Benefits of the Spin-off We believe we will realize certain benefits from our separation from Daisytek. As an independent company, we expect to be better able to take advantage of various benefits, including the ones discussed below.

- To Raise Equity Capital on a Substantially More Cost Effective Basis. We believe that capital for PFSweb can be raised in a substantially more cost effective basis through an offering of our stock, rather than Daisytek stock. We also believe that we would be able to raise capital on a substantially more effective basis if Daisytek announced its plan to complete the spin-off of our company.

- Better Incentives for Employees and Greater Accountability. We expect that the motivation of our employees and the focus of our management will be strengthened by incentive compensation programs tied to the market performance of stock representing an interest solely in our business unit. The separation will allow better and more direct incentives for our employees and management. As a separate, publicly traded company after the spin-off, we will be able to implement stock-based compensation plans for our employees and management, which will be focused entirely on the

successful results and achievements of our business. For example, as a separate, publicly traded company, we will be able to tie incentive compensation of our employees more closely to the results of our business segment. We believe this will enhance our ability to attract and retain qualified personnel.

- Competition. We believe that our ability to market our services to certain manufacturers of certain products may be hampered by our ownership by Daisytek. In particular, we believe that for certain manufacturers, our separation from Daisytek would reduce or eliminate any potential channel conflicts as well as any concern regarding the potential disclosure of proprietary information.

- Greater Strategic Focus. As a result of having our own board of directors and separate management team, we expect to have a sharper focus on our business and strategic opportunities. We will also have greater ability to modify business processes to better fit the needs of our customers, business units and employees.

Separation, Transaction Management and Transitional Arrangements Concurrently with the completion of this offering, we and Daisytek will enter into certain agreements providing for the separation of our business from Daisytek, including a master separation agreement. These agreements generally provide for various interim and ongoing relationships between the parties. Under these agreements, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek $5.7 million in cash and assume $0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets. In connection with this offering, we will also repay our payable to Daisytek. In addition, we and Daisytek will enter into a transaction management services agreement under which we will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business and a transition services agreement under which Daisytek will provide us with certain transitional services.

All of our agreements with Daisytek were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of our separation from Daisytek. Although we generally believe that the terms of these agreements are consistent with fair market values, we cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

For more information regarding the separation arrangements, see "Certain Transactions."

Use of Proceeds

Assuming an initial public offering price of $13.00 per share, we will receive net proceeds of approximately $35.5 million from the sale of 3,100,000 shares of common stock in this offering ($41.1 million if the underwriters exercise their over-allotment option in full). We intend to use the net proceeds of this offering:

- to repay an intercompany payable to Daisytek ($ million as of October 31, 1999) which is payable on demand and accrues interest at a fluctuating rate equal to Daisytek's cost of funds (% as of October 31, 1999);

- to acquire certain assets from Daisytek of approximately $ million;

- for presently anticipated capital expenditures of approximately $ million; and - for general working capital and possible acquisitions.

Dividend Policy

We have never declared or paid cash dividends on our common stock. We currently intend to retain any future earnings to fund the development and growth of our business. Therefore, we do not currently anticipate paying any cash dividends in the foreseeable future.

Capitalization

The following table sets forth the Company's cash and capitalization as of June 30, 1999:

- on an actual basis;

- on a pro forma basis after giving effect to the following:

-- the contribution from Daisytek of $20,000 for 14,305,000 shares of our common stock;

-- the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital; and -- the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of $13.00 per common share, and the application of the estimated $35.5 million net proceeds to reduce the payable to Daisytek; and - on a supplemental pro forma basis after giving effect to the following:

-- as of October 1, 1999, we have restructured our agreements with IBM. Under our prior agreements, our services for IBM included serving as a master distributor and purchasing and reselling the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue) and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, as of October 1, 1999, we transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek will pay to us the net value of these assets and liabilities (approximately $15.3 million as of June 30, 1999). From this amount, we will pay to Daisytek the remaining balance of the payable to Daisytek of approximately $1.9 million as of June 30, 1999); and -- upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing

information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek $5.7 million in cash and assume $0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets.

This table should be read in conjunction with "Use of Proceeds," "Selected Combined Historical and Pro Forma Financial and Other Data," the "Combined Financial Statements" and related notes, the "Pro Forma and Supplemental Pro Forma Combined Financial Statements" and related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

AS OF JUNE 30, 1999 SUPPLEMENTAL ACTUAL PRO FORMA PRO FORMA (IN THOUSANDS, EXCEPT SHARE DATA)

Cash	$ 2,408	$ 2,428	$10,088
Payable to Daisytek	$37,349	$ 1,870	$ --
Capital Lease Obligation	--	--	260
Shareholders' Equity:			
Preferred stock, $1.00 par value; 1,000,000 shares authorized, none issued and outstanding	--	--	--
Common stock, no par value; 40,000,000 shares authorized; 17,405,000 shares issued and outstanding (pro forma and supplemental pro forma)	--	--	--
Additional paid-in capital	--	36,153	36,153
Daisytek's net equity investment	654	--	--
Accumulated other comprehensive income	(188)	(188)	(188)
Total shareholders' equity	466	35,965	35,965
Total capitalization	$37,815	$37,835	$36,225

Dilution

The net tangible book value of our common stock as of June 30, 1999 was $0.3 million, or $0.02 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less our total liabilities, divided by the total number of shares of common stock outstanding prior to this offering.

After giving effect to this offering and the receipt of $35.5 million of net proceeds from this offering (based on an assumed initial public offering price of $13.00 per share), the pro forma net tangible book value of the common stock as of June 30, 1999 would have been approximately $35.8 million, or $2.06 per share. This amount represents an immediate increase in net tangible book value of $2.04 per share to Daisytek, our existing stockholder, and an immediate dilution in net tangible book value of $10.94 per share to purchasers of common stock in this offering. Dilution is determined by subtracting pro forma net tangible book value per share after this offering from the amount of cash paid by a new investor for a share of common stock. The following table illustrates such dilution:

Assumed initial public offering price per share		$13.00
Net tangible book value per share at June 30, 1999	$0.02	
Increase in pro forma net tangible book value per share attributable to new investors	2.04	
Pro forma net tangible book value per share after this		

offering	2.06
Dilution per share to new investors	$10.94

The following table sets forth, as of June 30, 1999, on the pro forma basis described above, the number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid by the existing stockholder and by new investors who purchase shares of common stock in this offering, before deducting the estimated underwriting discounts and commissions and offering expenses.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing Stockholder(1)(2)	14,305,000	82.2%	$ 20,000	0.1%	$ 0.01
New Investors(2)	3,100,000	17.8	40,300,000	99.9	13.00
Total	17,405,000	100.0%	$40,320,000	100.0%	

(1) If the Underwriters' over-allotment option is exercised in full, sales in this offering will reduce the number of shares of common stock held by the existing stockholder to approximately 80.1% of the total shares of common stock outstanding after the offering and will increase the number of shares held by new investors to 3,565,000, or approximately 19.9% of the total shares of common stock outstanding after the offering. See "Underwriting."

(2) The foregoing table excludes outstanding stock options to purchase an aggregate of 1,376,500 shares of common stock at a weighted average exercise price of $10.51 per share. In addition, upon completion of the spin-off, stock options exercisable for shares of Daisytek common stock held by PFSweb employees will be converted into stock options exercisable for shares of our common stock. It is not possible to specify how many shares of our common stock will be subject to such stock options, as it is not known how many stock options to purchase Daisytek common stock held by PFSweb employees will remain unexercised and outstanding by the record date for the spin-off. However, based on the number of options to purchase Daisytek common stock held by PFSweb employees outstanding on , 1999, options to purchase shares of Daisytek common stock would become options to purchase shares of PFSweb common stock at an estimated weighted average exercise price of $ per share, based on the three day average market price of Daisytek common stock ending on , 1999 ($) and the mid-point of the range of the estimated initial public offering price of our common stock ($13.00). If these options are exercised, further dilution to new investors will occur. We may also issue additional shares of common stock upon exercise of future stock option grants or equity awards, which could also result in additional dilution to then-existing stockholders.

Selected Combined Historical and Pro Forma Financial and Other Data

The following information sets forth our selected combined historical and pro forma financial and other data as of the dates and for the periods indicated. Because we believe that our historical financial statements may not provide a meaningful basis for analyzing our business in the future, we have

presented our financial data in the following formats:

- Historical Presentation;

- Pro Forma and Supplemental Pro Forma Presentation; and - Fee Equivalent Presentation.

Historical Presentation

The selected combined historical statement of operations data and balance sheet data for each of the fiscal years ended March 31, 1997 through 1999, have been derived from our audited combined financial statements and should be read in conjunction with those statements and notes included elsewhere in this prospectus. The selected combined historical statement of operations data for the fiscal years ended March 31, 1995 and 1996 and the three months ended June 30, 1998 and 1999 and the selected combined historical balance sheet data as of March 31, 1995 and 1996 and June 30, 1999 have been derived from our unaudited combined financial statements, and include, in our opinion, all normal, recurring adjustments necessary for a fair presentation of the financial position at such dates and the results of operations for such respective periods. The financial information herein may not necessarily reflect our results of operations, financial position and cash flows in the future or what our results of operations, financial position and cash flows would have been had we been a separate, stand-alone entity during the periods presented.

Pro Forma and Supplemental Pro Forma Presentation

The pro forma and supplemental pro forma financial data have been derived from our unaudited pro forma and supplemental pro forma combined financial statements which were prepared to illustrate the effects of certain transactions and events and the application of the net offering proceeds. The unaudited pro forma and supplemental pro forma combined statement of operations data have been prepared as if the transactions and events described below had occurred as of the beginning of the respective periods presented. The unaudited pro forma and supplemental pro forma combined balance sheet data have been prepared as if these transactions and events had occurred as of June 30, 1999. The unaudited pro forma and supplemental pro forma combined financial data do not purport to represent what our results of operations or financial position would actually have been if this offering and the transactions and events had in fact occurred on such dates or to project our results of operations or financial position for any future date or period. For a more complete discussion, this data should be read in conjunction with the "Combined Financial Statements and Related Notes," the "Unaudited Condensed Interim Combined Financial Statements and the Related Notes," the "Pro Forma and Supplemental Pro Forma Combined Financial Statements and the Related Notes," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

The unaudited pro forma financial data gives effect to the following transactions and events:

- the contribution from Daisytek of $20,000 for 14,305,000 shares of our common stock;

- the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital;

- the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of $13.00 per common share, and the application of the estimated $35.5 million net proceeds to reduce the payable to Daisytek and to reduce interest expense previously charged by Daisytek; and 22 - the incremental costs we expect to incur as a stand-alone publicly traded company.

The unaudited supplemental pro forma financial data gives effect to the following transactions and events:

- as of October 1, 1999, we have restructured our agreements with IBM. Under our prior agreements, our services for IBM included serving as a master distributor and purchasing and reselling the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue) and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, as of October 1, 1999, we transferred to Daisytek the IBM related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek will pay to us the net value of these assets and liabilities (approximately $15.3 million as of June 30, 1999). From this amount, we will repay to Daisytek the remaining balance of the payable to Daisytek (approximately $1.9 million as of June 30, 1999);

- upon completion of this offering, we will enter into a transaction management services agreement with Daisytek under which we will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business; and - upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek $5.7 million in cash and assume $0.3 million of capital lease obligations, as well as the operating lease obligations related to these assets.

We believe the estimates and assumptions used to prepare the unaudited pro forma and supplemental pro forma combined financial data provide a reasonable basis for presenting the significant effects of this offering and the transactions discussed above, and that the pro forma and supplemental pro forma adjustments give appropriate effect to the estimates and the assumptions and are properly applied in the unaudited pro forma combined financial data.

Fee Equivalent Presentation

We have provided a "fee equivalent" presentation to show how we evaluate our business internally and how we will present our financial statements in the future because of our new arrangements with IBM and Daisytek. The "fee equivalent" presentation reflects the gross profits that we generated from our business with IBM as service fee revenue. We historically recorded the IBM related revenue as product revenue and related product costs as costs of product revenue because, under our prior agreements with IBM, our services included acting as a master distributor and purchasing and reselling the IBM inventory to customers. Under our new arrangements with IBM, we will record revenue generated by our business with IBM and Daisytek as service fee revenue. In addition, this presentation includes a reclassification of certain historically recognized selling, general and administrative expenses to cost of service fee revenue. We have excluded the following items from this fee equivalent presentation, which are reflected in the supplemental pro forma financial data:

- the impact of our new transaction management services agreement with Daisytek that will begin upon completion of this offering; and - the reduction in service fee revenue and gross profit under our new arrangements with IBM and Daisytek because certain services that we currently provide to IBM will be provided by Daisytek.

Historical, Pro Forma and Supplemental Pro Forma Financial Data

	FISCAL YEARS ENDED MARCH 31,				FISCAL YEAR ENDED MARCH 31, 1999	
	1995	1996	1997	1998	ACTUAL	SUPPLEMENTAL PRO FORMA	PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				(IN THOUSANDS, EXCEPT PER SHARE DATA)		
	(UNAUDITED)				(UNAUDITED)		
COMBINED STATEMENT OF OPERATIONS DATA:							
Revenues:							
Product revenue	$ --	$ --	$16,543	$45,804	$ 93,702	$ 93,702	$ --
Service fee revenue	65	111	1,034	3,539	7,547	7,547	31,510
Total revenues	65	111	17,577	49,343	101,249	101,249	31,510
Costs of revenues:							
Cost of product revenue	--	--	15,768	43,392	88,335	88,335	--
Cost of service fee revenue	65	67	596	2,208	5,323	5,323	18,526
Total costs of revenues	65	67	16,364	45,600	93,658	93,658	18,526
Gross profit	--	44	1,213	3,743	7,591	7,591	12,984

Percent of revenues.....	--%	39.6%	6.9%	7.6%	7.5%	7.5%	41.2%			
Selling, general and administrative expenses.....	--	--	1,058	3,645	6,559	8,868	8,632			
Income (loss) from operations.....	--	44	155	98	1,032	(1,277)	4,352			
Percent of revenues.....	--	39.6%	0.9%	0.2%	1.0%	(1.3)%	13.8%			
Interest (income) expense, net....	41	53	77	143	374	(665)	(291)			
Income (loss) before income taxes.....	(41)	(9)	78	(45)	658	(612)	4,643			
Provision (benefit) for income taxes.....	(16)	(2)	44	(7)	273	(184)	1,700			
Net income (loss).....	$ (25)	$ (7)	$ 34	$ (38)	$ 385	$ (428)	$ 2,943			
PER SHARE DATA:										
Net income (loss) per share:										
Basic and diluted(a).....	$ (0.00)	$ (0.00)	$ 0.00	$(0.00)	$ 0.03	$ (0.02)	$ 0.17			
Weighted average number of shares outstanding:										
Basic and diluted(a).....	14,305	14,305	14,305	14,305	14,305	17,405	17,405			

(a) On an historical basis, reported basic and diluted net income per share was determined based on net income divided by the 14,305,000 shares outstanding prior to this offering. For purposes of the net income per share calculation, the shares outstanding prior to this offering are treated as outstanding for all historical periods presented. Basic and diluted pro forma and supplemental pro forma net income per share are calculated based on common stock outstanding of 17,405,000 shares upon completion of this offering. It does not include up to 465,000 shares of common stock which the underwriters have the option to exercise solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, basic and diluted pro forma net loss per share would be ($0.02) and basic and diluted supplemental pro forma net income per share would be $0.16 for the fiscal year ended March 31, 1999 and basic and diluted pro forma net loss per share would be ($0.02) and basic and diluted supplemental pro forma net income per share would be $0.02 for the three months ended June 30, 1999. There were no potentially dilutive securities outstanding during the periods presented.

	THREE MONTHS ENDED JUNE 30, 1998	THREE MONTHS ENDED JUNE 30, 1999		
		ACTUAL	PRO FORMA	SUPPLEMENTAL PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)			
COMBINED STATEMENT OF OPERATIONS DATA (CONTINUED):				
Revenues:				
Product revenue.....	$20,424	$32,620	$32,620	$ --
Service fee revenue.....	1,004	3,191	3,191	9,250
Total revenues.....	21,428	35,811	35,811	9,250
Costs of revenues:				
Cost of product revenue.....	19,345	30,793	30,793	--
Cost of service fee revenue.....	834	2,231	2,231	5,827
Total costs of revenues.....	20,179	33,024	33,024	5,827

Gross profit	1,249	2,787	2,787	3,423	
Percent of revenues	5.8%	7.8%	7.8%	37.0%	
Selling, general and administrative expenses	1,154	2,788	3,384	3,116	
Income (loss) from operations	95	(1)	(597)	307	
Percent of revenues	0.4%	--%	(1.7)%	3.3%	
Interest (income) expense, net	53	326	(96)	(141)	
Income (loss) before income taxes	42	(327)	(501)	448	
Provision (benefit) for income taxes	17	(129)	(166)	177	
Net income (loss)	$ 25	$ (198)	$ (335)	$ 271	
PER SHARE DATA:					
Net income (loss) per share:					
Basic and diluted(a)	$ 0.00	$ (0.01)	$ (0.02)	$ 0.02	
Weighted average number of shares outstanding:					
Basic and diluted(a)	14,305	14,305	17,405	17,405	

	AS OF MARCH 31,					AS OF JUNE 30, 1999		
	1995	1996	1997	1998	1999	ACTUAL	PRO FORMA	PRO FORMA SUPPLEMENTAL
	(UNAUDITED)		(IN THOUSANDS)			(IN THOUSANDS) (UNAUDITED)		
COMBINED BALANCE SHEET DATA:								
Working capital	$507	$579	$ 5,757	$ 1,344	$14,636	$20,819	$20,839	$13,181
Total assets	524	591	15,614	20,911	69,057	67,967	67,987	39,455
Long-term obligations	550	629	5,851	1,780	28,889	37,349	1,870	260
Shareholders' equity (deficit)	(43)	(49)	2	(108)	721	466	35,965	35,965

Fee Equivalent Financial Data

	FISCAL YEARS ENDED MARCH 31,					THREE MONTHS ENDED JUNE 30,	
	1995	1996	1997	1998	1999	1998	1999
	(UNAUDITED)		(IN THOUSANDS)			(IN THOUSANDS) (UNAUDITED)	
OTHER OPERATIONS DATA:							
Service fee revenues	$ 65	$ 111	$ 1,809	$ 5,951	$ 12,914	$ 2,083	$ 5,018
Cost of service fee revenues	65	67	787	3,075	6,881	1,183	2,895
Gross profit	--	44	1,022	2,876	6,033	900	2,123
Percent of revenues	--%	39.6%	56.5%	48.3%	46.7%	43.2%	42.3%
Selling, general and administrative expenses	--	--	867	2,778	5,001	805	2,124
Income (loss) from operations	--	44	155	98	1,032	95	(1)
Percent of revenues	--%	39.6%	8.6%	1.6%	8.0%	4.6%	--%
Interest expense, net	41	53	77	143	374	53	326
Income (loss) before income taxes	(41)	(9)	78	(45)	658	42	(327)
Provision (benefit) for income taxes	(16)	(2)	44	(7)	273	17	

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(129)
  Net income (loss).................  $  (25)  $  (7)  $    34   $    (38)  $    385   $    25   $
(198)
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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 combined financial statements and related notes thereto appearing elsewhere in this prospectus.

Overview

We are an international provider of transaction management services to both traditional and e-commerce companies. We offer a comprehensive suite of services, including order management, customer care services, billing services, information management and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete transaction management infrastructure requirements to a single source. We currently provide transaction management services to over 30 clients that operate in a range of vertical markets, including apparel, computer products, printers, sporting goods and consumer electronics, among others. Our clients include various divisions of IBM, Hewlett-Packard, Thomson Consumer Electronics, Nokia, Tektronix, Global Sports Interactive, American Eagle Outfitters and ISA International plc.

Our service fee revenue is typically charged on a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for call center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors. Many of our contracts with our clients involve third-party vendors who provide additional services such as package delivery. The costs we are charged by these third-party vendors for these services are typically passed on to our clients (and, in many cases, our clients' customers) and are generally not reflected in our revenue or expense. Historically, our services have also included purchasing and reselling client product inventory. In these arrangements, our product revenue was recognized at the time product was shipped. As of October 1, 1999, our primary client agreement under which we previously purchased and sold inventory will be restructured to provide transaction management services only on a service fee basis.

Our expenses are comprised of:

- on an historical basis, cost of product revenue, which consists of the purchase price of product sold and net freight costs;

- cost of service fee revenue, which consists primarily of compensation and related expenses for our customer care and fulfillment centers and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and

information technology costs and depreciation and amortization expenses; and - selling, general and administrative expenses, which consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, on an historical basis, certain direct contract costs related to our IBM master distributor agreements have been reflected as selling and administrative expenses.

Results of Operations

Historical Presentation The following table sets forth certain historical financial information from our audited and unaudited combined statements of operations expressed as a percent of revenues.

	FISCAL YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1997	1998	1999	1998	1999
Product revenue	94.1%	92.8%	92.5%	95.3%	91.1%
Service fee revenue	5.9	7.2	7.5	4.7	8.9
Total revenues	100.0	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue)	95.3	94.7	94.3	94.7	94.4
Cost of service fee revenue (as % of service fee revenue)	57.6	62.4	70.5	83.1	69.9
Total costs of revenues	93.1	92.4	92.5	94.2	92.2
Gross profit	6.9	7.6	7.5	5.8	7.8
Selling, general and administrative expenses	6.0	7.4	6.5	5.4	7.8
Income from operations	0.9	0.2	1.0	0.4	--
Interest expense, net	0.5	0.3	0.4	0.2	0.9
Income (loss) before income taxes	0.4	(0.1)	0.6	0.2	(0.9)
Provision (benefit) for income taxes	0.2	0.0	0.2	0.1	(0.3)
Net income (loss)	0.2%	(0.1)%	0.4%	0.1%	(0.6)%

Fee Equivalent Presentation The following table sets forth certain financial information from our unaudited combined statements of operations on a fee equivalent basis expressed as a percent of revenues. (See "Selected Combined Historical and Pro Forma Financial and Other Data" for further discussion.)

	FISCAL YEARS ENDED MARCH 31,			THREE MONTHS ENDED JUNE 30,	
	1997	1998	1999	1998	1999
Service fee revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of service fee revenues	43.5	51.7	53.3	56.8	57.7
Gross profit	56.5	48.3	46.7	43.2	42.3
Selling, general and administrative expenses	47.9	46.7	38.7	38.6	42.3
Income from operations	8.6	1.6	8.0	4.6	0.0
Interest expense, net	4.3	2.3	2.9	2.6	6.5
Income (loss) before income taxes	4.3	(0.7)	5.1	2.0	(6.5)
Provision (benefit) for income taxes	2.4	(0.1)	2.1	0.8	(2.6)
Net income (loss)	1.9%	(0.6)%	3.0%	1.2%	(3.9)%

Three Month Period Ended June 30, 1999 Compared to Three Month Period Ended June 30, 1998

Historical Comparison Product Revenue. Product revenue was $32.6 million for the three months ended June 30, 1999 as compared to $20.4 million for the three months ended June 30, 1998, an increase of $12.2 million or 59.7%. Product revenue increased as a result of higher sales volumes under our North American IBM master distributor agreements and the addition of new European IBM distributor agreements entered into during December 1998.

Service Fee Revenue. Service fee revenue was $3.2 million during the three months ended June 30, 1999 as compared to $1.0 million during the three months ended June 30, 1998, an increase of $2.2 million or 217.8%. The increase in service fee revenue was primarily due to growth in client orders processed under both new and existing fee-based contracts.

Cost of Product Revenue. Cost of product revenue was $30.8 million during the three months ended June 30, 1999 as compared to $19.3 million during the three months ended June 30, 1998, an increase of $11.5 million or 59.2%. Cost of product revenue as a percent of product revenue was 94.4% during the three months ended June 30, 1999 and 94.7% during the three months ended June 30, 1998. The resulting product gross profit margin was 5.6% during the three months ended June 30, 1999 and 5.3% during the three months ended June 30, 1998. The increase in product gross profit margin was related to changes in customer and product mix.

Cost of Service Fee Revenue. Cost of service fee revenue was $2.2 million for the three months ended June 30, 1999 as compared to $0.8 million during the three months ended June 30, 1998, an increase of $1.4 million or 167.5%. The increase in cost of service fee revenue during the three months ended June 30, 1999 was due to increased activity from growth in existing contracts as well as new client relationships. The resulting service fee gross profit margin was 30.1% during the three months ended June 30, 1999 and 16.9% during the three months ended June 30, 1998. The increase in service fee gross profit margin was due to certain initial incremental costs incurred to implement several new contracts during the three months ended June 30, 1998.

Gross Profit. Gross profit was $2.8 million for the three months ended June 30, 1999 or 7.8% of revenues as compared to $1.2 million or 5.8% of revenues for the three months ended June 30, 1998. The increase in gross profit margin resulted from increased service fee revenues, which typically earn higher gross profit margins, during the three months ended June 30, 1999.

Selling, General and Administrative Expenses. SG&A expenses were $2.8 million for the three months ended June 30, 1999 or 7.8% of revenues as compared to $1.2 million or 5.4% of revenues for the three months ended June 30, 1998. SG&A expenses increased primarily as a result of costs incurred to support the higher sales volumes under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

Interest Expense, Net. Interest expense was $0.3 million for the three months ended June 30, 1999 as compared to $0.1 million for the three months ended June 30, 1998. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements. The weighted average interest rate was 6.11% during the three months ended June 30, 1999 and 7.15% during the three months ended June 30, 1998.

Income Taxes. Our effective tax rate was 39.4% for the three months ended June 30, 1999 and 40.5% for the three months ended June 30, 1998.

Fee Equivalent Comparison Fee Equivalent Revenues. Fee equivalent revenues were $5.0 million for the three months ended June 30, 1999 as compared to $2.1 million for the three months ended June 30, 1998, an increase of $2.9 million or 140.9%. Fee equivalent revenues increased primarily due to growth in client orders processed under both existing and new client relationships.

Fee Equivalent Gross Profit. Our fee equivalent gross profit was $2.1 million or 42.3% of fee equivalent revenues for the three months ended June 30, 1999 as compared to $0.9 million or 43.2% of fee equivalent revenues for the three months ended June 30, 1998. Our IBM master distributor agreements have historically earned a higher fee equivalent gross profit margin than our other service fee contracts. As the overall fee equivalent revenues of these IBM agreements have declined as a percent of total fee equivalent revenues, the overall fee equivalent gross profit margin has declined.

Fee Equivalent Selling, General and Administrative Expenses. Fee equivalent SG&A expenses were $2.1 million for the three months ended June 30, 1999 or 42.3% of fee equivalent revenues as compared to $0.8 million or 38.6% of fee equivalent revenues for the three months ended June 30, 1998. The increase in fee equivalent SG&A expenses was primarily a result of costs incurred to support growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased fee equivalent SG&A expenses.

Fiscal Year Ended March 31, 1999 Compared to Fiscal Year Ended March 31, 1998

Historical Comparison Product Revenue. Product revenue was $93.7 million for fiscal 1999 compared to $45.8 million for fiscal 1998, an increase of $47.9 million or 104.6%. Product revenue increased as a result of higher sales volumes under our North American IBM master distributor agreements and the addition of new European IBM distributor agreements entered into in December 1998.

Service Fee Revenue. Service fee revenue was $7.5 million during fiscal 1999 as compared to $3.5 million during fiscal 1998, an increase of $4.0 million or 113.3%. The increase in service fee revenue was primarily due to growth in client orders processed under both new and existing fee-based contracts.

Cost of Product Revenue. Cost of product revenue was $88.3 million during fiscal 1999 as compared to $43.4 million during fiscal 1998, an increase of $44.9 million or 103.6%. Cost of product revenue as a percent of product revenue was 94.3% for fiscal 1999 and 94.7% for fiscal 1998. The resulting product gross profit margin was 5.7% for fiscal 1999 and 5.3% for fiscal 1998. The increase in product gross profit margin was related to changes in customer and product mix.

Cost of Service Fee Revenue. Cost of service fee revenue was $5.3 million for fiscal 1999 compared to $2.2 million during fiscal 1998, an increase of $3.1 million or 141.1%. The increase in cost of service fee revenue during fiscal 1999 was due to growth in client orders processed during the period. The resulting service fee gross profit margin was 29.5% during fiscal 1999 and 37.6% during fiscal 1998. The decrease in service fee gross profit margin was due to the addition of certain large contracts at lower gross profit margins and incremental costs related to implementing several new contracts during fiscal 1999.

Gross Profit. Our gross profit was $7.6 million or 7.5% of revenues for fiscal 1999 as compared to $3.7 million or 7.6% of revenues for fiscal 1998.

Selling, General and Administrative Expenses. SG&A expenses for fiscal 1999 were $6.6 million or 6.5% of revenues as compared to $3.6 million or 7.4% of revenues for fiscal 1998. The increase in SG&A expenses for fiscal 1999 was a result of costs incurred to support the growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

Interest Expense, Net. Interest expense was $0.4 million during fiscal 1999 and $0.1 million during fiscal 1998. Interest expense increased as a result of an increase in the average payable to Daisytek to support working capital requirements applicable primarily to our master distributor agreements. The weighted average interest rate was 6.7% during fiscal 1999 and 6.9% during fiscal 1998.

Income Taxes. Our effective tax rate was 41.5% for fiscal 1999 as compared to an effective tax rate benefit of 15.6% for fiscal 1998. The change in the effective tax rate was the result of an increase in earnings of our U.S. operations relative to our international operations at a lower marginal tax rate than our international operations combined with certain nondeductible expenses in fiscal 1998.

Fee Equivalent Comparison Fee Equivalent Revenues. Fee equivalent revenues were $12.9 million for fiscal 1999 as compared to $6.0 million for fiscal 1998, an increase of $6.9 million or 117.0%. Fee equivalent revenues increased primarily due to growth in client orders processed under both existing and new client relationships.

Fee Equivalent Gross Profit. Our fee equivalent gross profit was $6.0 million or 46.7% of fee equivalent revenues for fiscal 1999 as compared to $2.9 million or 48.3% of fee equivalent revenues for fiscal 1998. Our IBM master distributor agreements have historically earned a higher fee equivalent gross profit margin than our other service fee contracts. As the overall fee equivalent revenues of these IBM agreements have declined as a percent of total fee equivalent revenues, the overall fee equivalent gross profit margin has declined.

Fee Equivalent Selling, General and Administrative Expenses. Fee equivalent SG&A expenses were $5.0 million for fiscal 1999 or 38.7% of fee equivalent revenues as compared to $2.8 million or 46.7% of fee equivalent revenues for fiscal 1998. The increase in fee equivalent SG&A expenses for fiscal 1999 was primarily the result of growth in client orders processed under both new and existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased fee equivalent SG&A expenses. The improvement in the fee equivalent SG&A percentage was due to our ability to leverage existing infrastructure costs.

Fiscal Year Ended March 31, 1998 Compared to Fiscal Year Ended March 31, 1997

Historical Comparison Product Revenue. Product revenue was $45.8 million for fiscal 1998 as compared to $16.5 million for fiscal 1997, an increase of $29.3 million or 176.9%. Product revenue increased during fiscal 1998 as a result of higher sales volumes of products under our IBM master distributor agreements.

Service Fee Revenue. Service fee revenue was $3.5 million during fiscal 1998 as compared to $1.0 million during fiscal 1997, an increase of $2.5 million or 242.3%. The increase in service fee revenue was primarily due to growth in client orders processed under both new and existing fee-based contracts.

Cost of Product Revenue. Cost of product revenue was $43.4 million during fiscal 1998 as compared to $15.8 million during fiscal 1997, an increase of $27.6 million or 175.2%. Cost of product revenue as a percent of product revenue was 94.7% for fiscal 1998 and 95.3% for fiscal 1997. The resulting product gross profit margin was 5.3% for fiscal 1998 and 4.7% for fiscal 1997. The increase in product gross profit margin was related to changes in customer and product mix.

Cost of Service Fee Revenue. Cost of service fee revenue was $2.2 million for fiscal 1998 as compared to $0.6 million for fiscal 1997, an increase of $1.6 million or 270.5%. The increase in cost of service fee revenue during fiscal 1998 was due to growth in client orders processed during the period. The resulting service fee gross profit margin was 37.6% during fiscal 1998 and 42.4% during fiscal 1997. The decrease in service fee gross profit margin was due to the addition of certain large contracts at lower gross profit margins.

Gross Profit. Our gross profit was $3.7 million or 7.6% of revenues for fiscal 1998 as compared to $1.2 million or 6.9% of revenues for fiscal 1997. The increase in our gross profit for fiscal 1998 was primarily the result of increased product revenue. The increase in our gross profit margin resulted from increased service fee revenues, which typically earn higher gross profit margins, during fiscal 1998.

Selling, General and Administrative Expenses. SG&A expenses were $3.6 million for fiscal 1998 or 7.4% of revenues as compared to $1.1 million or 6.0% of revenues for fiscal 1997. The increase in SG&A expenses for fiscal 1998 was primarily the result of higher sales volumes under both new and

existing contracts. Incremental investments in resources and technology to support our continued growth also contributed to increased SG&A expenses.

Interest Expense, Net. Interest expense was $0.1 million during each of fiscal 1998 and fiscal 1997. Interest expense increased slightly as a result of an increase in the average payable to Daisytek to support our working capital requirements applicable primarily to its master distributor agreements. The weighted average interest rate was 6.9% during fiscal 1998 and 6.1% during fiscal 1997.

Income Taxes. Our effective tax rate benefit was 15.6% for fiscal 1998 compared to an effective tax rate of 56.4% for fiscal 1997. The change in the effective tax rate was the result of an increase in earnings of our U.S. operations relative to our international operations at a lower marginal tax rate than our international operations combined with certain nondeductible expenses in fiscal 1998.

Fee Equivalent Comparison Fee Equivalent Revenues. Fee equivalent revenues were $6.0 million for fiscal 1998 as compared to $1.8 million for fiscal 1997, an increase of $4.2 million or 229.0%. Fee equivalent revenues increased due to growth in client orders processed under existing and new client relationships.

Fee Equivalent Gross Profit. Our fee equivalent gross profit was $2.9 million or 48.3% of fee equivalent revenues for fiscal 1998 as compared to $1.0 million or 56.5% of fee equivalent revenues for fiscal 1997. Our IBM master distributor agreements have historically earned a higher fee equivalent gross profit margin than our other service fee contracts. As the overall fee equivalent revenues of these IBM agreements have declined as a percent of total fee equivalent revenues, the overall gross profit margin has declined.

Fee Equivalent Selling, General and Administrative Expenses. Fee equivalent SG&A expenses were $2.8 million for fiscal 1998 or 46.7% of fee equivalent revenues as compared to $0.9 million or 47.9% of fee equivalent revenues for fiscal 1997. The increase in fee equivalent SG&A expenses for fiscal 1998 was primarily the result of growth in client orders processed. Incremental investments in resources and technology to support our continued growth also contributed to increased fee equivalent SG&A expenses. The improvement in the fee equivalent SG&A percentage was due to our ability to leverage existing infrastructure costs.

Liquidity and Capital Resources

As a subsidiary of Daisytek, we have historically funded our business through intercompany borrowings from Daisytek. The net proceeds of this offering will be used to repay our intercompany borrowings from Daisytek. We currently believe that the net available proceeds from this offering, the effect of the restructuring of our IBM agreements discussed below and funds generated from operations will satisfy our working capital and capital expenditure requirements for the next twelve months. Because we will be restricted from borrowing from Daisytek following the spin-off, we also plan to seek our own credit facility. 32 Net cash provided by financing activities was $8.5 million for the three months ended June 30, 1999, as compared to $5.6 million for the three months ended June 30, 1998. Net cash provided by financing activities was $27.6 million for fiscal 1999 and $5.2 million

for fiscal 1997. Net cash used in financing activities was $4.1 million in fiscal 1998, representing a repayment to Daisytek. Additionally, during fiscal 1999, Daisytek made a capital contribution of $0.5 million to its PFSweb Canadian subsidiary.

Cash flows used in operating activities totaled $4.4 million during the three months ended June 30, 1999 as compared to $1.3 million during the three months ended June 30, 1998. For the three months ended June 30, 1999, the net cash used in operating activities primarily reflected a reduction in accounts payable and accrued expenses of $9.3 million and an increase in accounts receivable of $0.6 million, which was partially offset by a reduction in inventory of $5.3 million. For the three months ended June 30, 1998, the net cash used in operating activities was primarily due to an increase in inventory of $0.7 million and accounts receivable of $2.2 million, which were partially offset by a reduction in accounts payable and accrued expenses of $1.5 million.

Net cash used in operating activities was $12.1 million for fiscal 1999 and $5.1 million for fiscal 1997. Net cash provided by operating activities was $4.6 million for fiscal 1998. Working capital requirements increased in fiscal 1999 compared to fiscal 1998 primarily due to product revenue growth under our North American IBM master distributor agreements. We also entered into new master distributor agreements in December 1998 to provide services for IBM in Europe. Our North American revenue growth, as well as the new European contracts, resulted in significant increases in IBM contract related accounts receivable, inventory and accounts payable.

Working capital increased to $20.8 million at June 30, 1999 from $14.6 million at March 31, 1999, and from $1.3 million at March 31, 1998. A significant portion of our working capital needs has historically been related to our master distributor agreements with IBM which required us to purchase and resell the product inventory to IBM customers. Under our new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue), and we will continue to perform most of the other transaction management services we had provided previously. As part of these new IBM agreements, we will receive service fees from Daisytek for the transaction management services that we provide. In connection with the restructuring of our IBM agreements, as of October 1, 1999, we transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that we held under our prior agreements. In consideration of this transfer, Daisytek will pay to us the net value of these assets and liabilities (approximately $15.3 million as of June 30, 1999). From this amount, we will pay to Daisytek the remaining balance of the payable owed to Daisytek of approximately $1.9 million as of June 30, 1999). As a result of these transactions, our historical working capital requirements may not be indicative of our future needs.

Our principal use of funds for investing activities was capital expenditures of $2.1 million for the first three months of fiscal 2000 as compared to $0.3 million for the first three months of fiscal 1999. Capital expenditures were $2.7 million for fiscal 1999, $0.3 million for fiscal 1998 and $0.1 million for fiscal 1997. In addition, we have entered into a long-term contractual agreement with one of our clients pursuant to which, as part of the services that we provide, we finance certain of the client's inventory. This amount was $12.2 million at June 30, 1999 and $12.1 million at March 31, 1999 (see Note 2 of

Notes to Combined Financial Statements). Capital expenditures have consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of our facilities, both domestic and foreign. We expect to incur significant capital expenditures in order to support new contracts and anticipated future growth opportunities. We anticipate that our total investment in upgrades and additions to facilities and information technology services for fiscal 2000 will be approximately $13.0 to $15.0 million. This amount includes the transfer to us of certain assets from Daisytek for approximately $6.0 million ($5.7 million in cash and the assumption of $0.3 million of capital lease obligations) plus the assumption of certain lease obligations. The increase in 33 anticipated capital expenditures over fiscal 1999 relates primarily to our asset purchase from Daisytek and capital expenditures applicable to our new Belgium distribution facility, combined with expansion of our U.S. sales and distribution facilities. Some of these expenditures may be financed through operating or capital leases.

We believe that international markets represent further opportunities for growth. We may consider entering into forward exchange contracts in order to hedge our net investment in our Canadian or European operations or in other international countries in which we establish a presence, although no assurance can be given that we will be able to do so on acceptable terms.

In the future, we may attempt to acquire other businesses to expand our services or capabilities in connection with our efforts to grow our business. We currently have no binding agreements to acquire any such businesses. Should we be successful in acquiring other businesses, we may require additional financing. Acquisitions involve certain risks and uncertainties. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire, whether we will be able to obtain financing to complete an acquisition, or whether we will be successful in operating the acquired business.

Year 2000 Issue

We utilize a significant number of computer software programs and information systems in our operations ("IT systems"). The mission-critical IT systems include our operating, Web hosting, accounting and telecommunications systems, such as IT software applications that allow us to maintain inventory and customer information and to communicate with our suppliers, clients and customers. We also make use of a variety of machinery and equipment in our business which are operated by or reliant upon non-information technology systems ("non-IT systems"), such as equipment or mechanical systems which contain embedded technology such as micro-controllers. To the extent that the source code of the software applications of these IT systems or the embedded technologies of these non-IT systems are unable to appropriately interpret and process the upcoming calendar year 2000, some level of modification, or possible replacement of such applications, would be necessary for the proper continuous performance of these systems. Without such modification or replacement, the normal course of our business could be disrupted or otherwise adversely impacted. This potential problem is commonly referred to as the year 2000 compliance issue ("Y2K").

In fiscal 1997, Daisytek began to address Y2K. Daisytek has formed a Y2K task force under its Chief Information Officer to coordinate and implement measures designed to prevent disruption in its business operations, including PFSweb, related to Y2K. Daisytek and PFSweb have successfully completed the remediation of their mission-critical IT applications software and are scheduled to complete remediation of their non-mission critical applications software by November 1999. Daisytek and PFSweb are assessing the effect of Y2K on their non-IT systems and intend to modify or replace non-IT systems as necessary to insure Y2K readiness by November 1999. We believe that, as of September 1, 1999, we have completed approximately 90% of the initiatives that we believe are necessary to fully address potential Y2K issues relating to our systems and operations. The projects comprising the remaining 10% of the initiatives are in process and expected to be completed by November 30, 1999. We believe that other IT projects not related to the Y2K issue have not been delayed or negatively affected by the initiatives addressing the Y2K issue. The following table represents our schedule and status of our Y2K initiatives:

Year 2000 Initiative Time Frame % Complete

Initial IT systems identification and assessment	4/97 - 6/97	100%
Remediation and testing regarding core distribution systems	7/97 - 11/98	100%
Remediation and testing regarding purchased software systems	7/97 - 10/99	95%
Upgrades to telecommunications systems	9/97 - 4/99	100%
Desktop systems identification and remediation	7/97 - 11/99	90%
Remediation and testing for automated warehouse equipment systems	7/99 - 11/99	50%
Service provider assessment	1/99 - 8/99	100%

We have initiated communications with our clients to determine the extent to which our revenues may be vulnerable due to our clients' failure to re-mediate Y2K and not be able to conduct business with us. We are satisfied that our major clients are either appropriately prepared for the Y2K issue or our engagement with them will not be adversely affected by the Y2K issue. However, there can be no guarantee that the systems of our clients, will be timely or properly converted, or that a failure to convert by another company, or a conversion that is incompatible with our systems, would not have a material adverse effect on our business.

We conduct electronic data interchange (EDI) with some of our clients. Approximately half of the clients that we conduct EDI with have converted their EDI transaction sets to Y2K compliant versions. We believe that we will be able to conduct business with all of our partners whether they convert to Y2K compliant versions or not. We believe that the EDI transactions that we use with our clients are not significantly dependent on Y2K compliance and that we will be able to accept transactions as well as send transactions to clients whether they are compliant or not.

We utilize a significant amount of automation technology in our distribution centers. This year, we undertook an upgrade project to strengthen the reliability of certain components of the automation network in our Memphis distribution facility. We expect this upgrade to be completed by November

1999. This project will also make this network Y2K compliant. All of our other distribution automation has been certified as Y2K compliant by our service providers.

We, in conjunction with Daisytek, have initiated formal communications with our significant service providers to determine the extent to which we are vulnerable to those third parties' failure to remediate Y2K. However, there can be no guarantee that the systems of our service providers, on which our operations rely, will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with our operations, would not have a material adverse effect on our business. We are developing contingency plans to address the risks created by third parties' failure to re-mediate Y2K. These plans include procuring alternative sources of services such as telecommunications and transportation when we are able to conclude that an existing supplier of services will not be Y2K ready. We are scheduled to complete these contingency plans by November 1999.

The expenses incurred by Daisytek and its subsidiaries (including PFSweb) related to Y2K was approximately $0.5 million during fiscal year 1999 and $0.1 million during the three months ended June 30, 1999. In total, Daisytek's assessment and remediation of Y2K has a budget of approximately $0.8 million, which includes both external costs, such as outside consultants, software and hardware applications, as well as internal costs, primarily payroll related, which are not reported separately.

There can be no assurance that Y2K remediation by PFSweb, in conjunction with Daisytek, or third parties will be properly and timely completed and failure to do so could have a material adverse effect on PFSweb's financial condition. We cannot predict the actual effects of Y2K, which depend on numerous uncertainties, such as whether major third parties address this issue properly and timely and whether broad-based or systemic economic failures may occur. We are currently unaware of any events, trends, or conditions regarding this issue that may have a material effect on our results of operations, liquidity, and financial position. If Y2K is not resolved by January 1, 2000, our results of operations or financial condition could be materially adversely affected.

Inventory Management

Prior to October 1, 1999, our agreements with IBM were structured as master distributor agreements. The transaction management services we provided for IBM under these agreements included purchasing and reselling IBM product inventory to IBM customers. As of October 1, 1999, we have restructured our agreements with IBM so that we will no longer be purchasing or reselling the IBM product inventory. In addition, as of October 1, 1999, we have transferred to Daisytek the IBM-related customer accounts receivables, inventory and accounts payable.

Seasonality

The seasonality of our business is dependent upon the seasonality of our clients' business and their sale of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that as our business grows with consumer product clients, our business activity will be more significant in the quarter ended December 31.

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

Inflation

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

Impact of Recently Issued Accounting Standards

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that an entity recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be used to hedge certain types of transactions, including foreign currency exposures of a net investment in a foreign operation. Our foreign currency exposure has been primarily related to our Canadian operations. Beginning in the year ended March 31, 1999, the foreign currency risks of PFSweb were considered in Daisytek's corporate risk management program, which included entering into certain forward currency exchange contracts. We did not enter into any such contracts on our own. SFAS No. 133 requires gains or losses on derivatives and hedging instruments to be recorded in other comprehensive income as a part of the cumulative translation adjustment. We are currently evaluating the provisions of SFAS No. 133 and its effect on the accounting treatment of these financial instruments. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, with initial application as of the beginning of an entity's fiscal quarter. Early adoption of the standard is allowed; however, the statement cannot be applied retroactively to financial statements of prior periods.

Quantitative and Qualitative Disclosure About Market Risk

We are subject to market risk associated with changes in interest rates and foreign currency exchange rates. Interest rate exposure is primarily related to our payable to Daisytek, which amounted to $37.3 million at June 30, 1999. Our effective rate is equal to Daisytek's effective rate on its revolving lines of credit. The interest rates on these revolving lines of credit float with the market. A 50 basis point movement in interest rates would result in an approximately $187,000 annualized increase or decrease in interest expense based on the outstanding balance of our payable to Daisytek at June 30, 1999. A

portion of the net proceeds from this offering will be used to repay our payable due to Daisytek. Following our spin-off from Daisytek, we may manage the 36 exposure to interest rate risk through the use of derivative instruments designed to manage risk and minimize interest expense.

We are subject to market risk associated with changes in foreign currency exchange rates. In order to manage these risks, beginning in the year ended March 31, 1999, our risks were considered in Daisytek's corporate risk management program, which included entering into certain forward currency exchange contracts. We did not enter into any such contracts on our own.

Currently, our foreign currency exchange rate risk is primarily limited to Canadian dollars. In the future, we believe our foreign currency exchange risk will also include other currencies applicable to certain of our international operations, including the Euro. In order to mitigate foreign currency rate risk, we will consider entering into forward currency exchange contracts to hedge our net investment and long-term intercompany payable balances.

Business

PFSweb is an international provider of transaction management services to both traditional and e-commerce companies. Our integrated solutions enable our clients to focus on their core business, products and services instead of making substantial investments in necessary transaction management infrastructure. We offer a comprehensive suite of services such as:

- order management, including Internet shopping cart and on-line order management;

- customer care services, including Web-enabled customer care centers integrating voice, e-mail, data and chat communications;

- billing services, including secure on-line credit card processing, invoicing, credit management and collection;

- information management, including real-time data interfaces, data exchange services and data mining; and - distribution services, including inventory management, product warehousing, order picking and packing, transportation management and product return administration.

We enable our clients to implement their e-commerce strategies and introduce new products and business programs by providing a complete transaction management infrastructure, which is seamlessly integrated with our clients' systems and transparent to our clients' customers. Our ability to integrate a broad range of services makes it easier for our clients to outsource these functions to us and provides a faster time to market for their e-commerce business.

Industry Overview

Businesses today operate in an environment of rapid technological advancements, increasing competition and continuous pressure to improve operating efficiency. In response to these developments, two significant trends have emerged. The first is the accelerating use of the Internet to

conduct e-commerce in both business-to-business and business-to-consumer applications. The second is the strategic decision of a growing number of companies, in a variety of industries, to outsource one or more business functions that are not within their core business competencies.

E-commerce Trend

As the Internet has become an increasingly important communications medium, businesses and consumers alike have begun to use the Internet to buy and sell goods and services. According to International Data Corporation, or IDC, the number of users who make purchases over the Web will jump from nearly 31 million in 1998 to more than 182 million in 2003 and the amount of worldwide business-to-business and business-to-consumer commerce conducted over the Web will increase from approximately $50 billion in 1998 to approximately $1.3 trillion in 2003.

For the manufacturer, e-commerce creates multiple opportunities. The first is the opportunity to sell directly to the end-user customer, bypassing the traditional model of selling to wholesalers and distributors who then resell to mass merchants and other retailers. By selling directly to the end-user customer, the manufacturer can retain a portion of its product revenue which otherwise would have been paid to middlemen in the traditional distribution channel. Direct sales can also provide the manufacturer with valuable end-user customer information, including buying patterns, feature and function preferences and customer support requirements. This information can be used by the manufacturer to design better products, tailor production schedules to meet projected demand and improve overall customer satisfaction. Another opportunity is to use e-commerce to facilitate business-to-business transactions and improve operating efficiencies. Business-to-business e-commerce has the potential to significantly reduce time consuming paperwork and manual procedures, which can eliminate errors and reduce investments in working capital.

For the traditional retailer, e-commerce offers the opportunity to attract new customers and introduce new merchandise while avoiding substantial investment in physical retail locations. At the same time, consumer preferences and customer data can be compiled and analyzed to spot trends and demographic shifts.

The development of e-commerce is also giving rise to the "virtual company", a business model which focuses its energies entirely on creative design and sales and marketing by contracting out all other necessary business functions to outsiders. The benefits of e-commerce are leading to rapid growth in the number of Internet commerce sites as well as the rapid development and deployment of new technologies.

To succeed on-line, companies need an array of capabilities to support their on-line business. Designing an attractive Web page is only the beginning. In order to retain and satisfy their on-line customers, businesses must be able to:

- accept and process customer orders 24 hours a day, seven days a week;

- provide a rapidly scalable and flexible infrastructure;

- administer, on a secure basis, credit card payments and collections;

- calculate applicable sales tax for numerous taxing authorities and various product types;

- quickly and courteously respond to customer inquiries by e-mail, phone or fax;

- pick, pack and ship customer orders promptly and accurately; and - process product returns and customer refunds.

Traditional manufacturers and retailers entering the e-commerce arena must be able to satisfy the expanding needs of on-line customers, which differ from their traditional commerce customers. The efficiency and quality of the on-line shopping experience from accessing product information, ordering and paying for the product to receiving the product and, if necessary, returning the product, are critical elements in successfully implementing e-commerce initiatives.

These challenges are particularly difficult for the traditional manufacturer whose distribution infrastructure is designed for large pallet sized orders to regional retailer distribution centers, and is not generally equipped to handle high-volume package distribution to individual customers. Similarly, retailers must ensure that their electronic shopping customer is not disappointed by experiencing product distribution problems and delays. Virtual companies, as well, are dependent upon an efficient order processing and distribution system to deliver their products to customers.

Outsourcing Trend

In response to growing competitive pressures and the rate of technological innovations, many companies are focusing their critical resources on the core competencies of their business. This focus typically results in these companies turning to outsourcing for business functions that are not core competencies. Outsourcing provides many key benefits, including the ability to:

- capitalize on skills, expertise and technology infrastructure that would otherwise be unavailable or expensive given the scale of the business;

- reduce capital and personnel investments and convert fixed investments to variable costs;

- increase flexibility to meet changing business conditions and demand for products and services;

- enhance customer satisfaction and gain competitive advantage;

- improve operating performance and efficiency; and - rapidly enter new business markets or geographic areas As a result, the market for outsourcing services has experienced significant growth. IDC expects that worldwide spending on outsourcing services will grow from nearly $100 billion in 1998 to more than $151 billion in 2003.

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

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

The Pfsweb Solution

We act as a virtual infrastructure for our clients, which helps them enhance their traditional commerce operations and meet the operational challenges associated with the deployment of their e-commerce initiatives. We believe we offer a unique comprehensive integrated solution which handles the lifecycle of the transaction "from the click of a mouse, to the knock at the house" (SM). This solution enables our clients to focus on their core business, products and services while at the same time quickly and efficiently implementing traditional and e-commerce business initiatives. By utilizing our services, our clients are able to:

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

Improve the Customer Experience. We enable our clients to provide their customers with a positive buying experience thereby maintaining and promoting brand loyalty. Through our use of advanced technology, we can respond directly to customer inquiries by e-mail, voice or data communication and assist them with on-line ordering and product information. We believe we offer our clients a "world class" level of service, including 24 hour, seven day a week customer care service centers and nearly 100% order accuracy.

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

Access a Sophisticated Technology Infrastructure. We provide our clients with ready access to a sophisticated technology infrastructure, which is designed to interface seamlessly with their systems. We provide our clients with vital product and customer information which can be immediately available to them on their own systems for use in data mining, analyzing sales and marketing trends, monitoring inventory levels and performing other transaction management functions.

The Pfsweb Strategy

Our objective is to grow rapidly by being an international provider of business-to-business and business-to-consumer transaction management services for both traditional and e-commerce businesses. The key elements of our business strategy are to:

Target Clients with Major Brand Names. We intend to aggressively expand our business by targeting brand names who are seeking to enter the e-commerce marketplace or introduce new products or business programs. We believe that the electronic commerce marketplace will be led by companies with major brand names and our focus on these companies will provide us with meaningful opportunities to grow along with our clients' e-commerce initiatives.

Expand Existing Client Relationships. By providing superior operating results, we believe we can expand relationships with existing clients to serve additional products and business segments and to provide additional services. Our objective is to integrate ourselves as our clients' "virtual infrastructure" so that we become a critical component of their transaction management process across the enterprise. Based upon our clients' needs, we plan to introduce new services to solve e-commerce transaction processing problems as they emerge. We also intend to continue our commitment to invest in state-of-the-art technology, equipment and systems to provide new, high-quality, innovative services to our existing clients and to attract new clients.

Promote Our PFSweb Brand. We intend to build PFSweb brand awareness by expanding the number of satisfied clients, increasing our advertising in trade journals and other print media and by further participation in trade shows and similar expositions. We also intend to increase our Internet advertising and search engine presence.

Seek Strategic Alliances and Acquisitions. We intend to pursue strategic alliances with Web site designers, Web hosting services, e-commerce software companies and other providers of Internet related services to assist in developing relationships with major brand names that are entering the e-commerce marketplace. We may also consider acquisitions of synergistic e-commerce businesses in order to offer a complete Internet implementation solution to clients looking to introduce the sale of their products over the Internet.

Expand Our International Presence. We intend to expand the availability of our services throughout the world so that we can enhance our international e-commerce transaction processing solutions. For example, in response to market opportunities, we intend to expand our multi-lingual call center services and foreign currency order processing.

Pfsweb Services

We offer a wide range of transaction management services that are tailored to our clients' specific needs to enable them to quickly and efficiently implement their e-commerce and traditional business initiatives. Our services include:

Order Management. Our order management services include handling the complete shopping cart check-out process for Internet orders as well as phone, fax, e-mail, mail and other order receipt methods. Our systems provide the ability for both our clients and their customers to track the status of orders at any time. Our services are transparent to our clients' customers and are seamlessly integrated with our clients' internal systems and Web sites. By synchronizing our order management technology with our clients' internal systems and Web sites, we can capture and provide critical customer information, including:

- statistical measurements critical to creating a quality customer experience, including real-time order status, order exceptions, back order tracking, the ratio of customer inquiries to purchases, average order sizes and order response time;

- detailed marketing information about what was sold and to whom it was sold, including by location and preference; and - Web traffic reporting of the number of visits ("hits") received, what areas of the Web site were visited, and what customers asked for on the Web site.

Customer Care Services. Our customer care services utilize Web-enabled features that integrate voice, e-mail, data and chat communications to respond to and handle customer inquiries. Our customer care representatives answer questions in our clients' name regarding orders, shipping, billing, returns and product information as well as a variety of other questions. Our customer care center automatically identifies each customer request and routes it to the available customer care representative who is specially trained in the client's business and products. Our customer care centers are designed so that our customer care representatives can handle many different clients and products, thereby creating economy of scale benefits for our clients. Our advanced technology also enables our representatives to inform customers of other products and sales opportunities for our clients.

Billing Services. We offer secure credit card processing for our clients, both directly on-line from their Web site as well as through our customer care center. Our credit card processing services offer real-time confirmation of credit card authorization while the customer is in the shopping-cart checkout process or talking to a customer care representative. We are able to calculate sales tax, if applicable, for numerous taxing authorities and on a variety of products. We provide customized computer generated invoices in our clients' names so that our services remain transparent to the customer. We also assist our clients in business-to-business accounts receivable management and collection in accordance with their procedures and guidelines.

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

Distribution Services. An integral part of our transaction management services is the warehousing and distribution of inventory owned by our clients. We currently have over one million square feet of warehouse space to store and process our clients' inventory. We receive client inventory in our distribution center, verify shipment accuracy, unpack, inspect for damage and generally stock for sale the same day. On behalf of our clients, we pick, pack and ship their customer orders and can provide customized packaging, inserts and promotional literature for distribution with customer orders. Based upon our clients' needs, we are able to take advantage of a variety of shipping and delivery options, including next day service. Our extensive use of advanced technology and equipment in our distribution centers enable us to generally maintain an order accuracy rate of nearly 100% and, similarly, ship nearly 100% of in-stock orders the same day. In addition, an increasingly important function that we provide for our clients is product return administration. We offer a wide array of product return services for our clients, including issuing return authorizations, receipt of product, crediting credit card accounts, and disposition of returned product.

Clients and Marketing

Our target clients include traditional manufacturers of brand name products looking to quickly and efficiently implement e-commerce initiatives or introduce new products or programs, without the burden of modifying or expanding their order processing and distribution infrastructure. We also target retailers seeking to open Web sites to expand their sales without opening new brick and 42 mortar stores and distributors seeking to reduce costs. Our services are available for a variety of industries, including:

- MANUFACTURERS such as IBM (printer and media supplies), Emtec (formerly BASF Magnetics) (data media and audio visual products), Tektronix (printers and printer supplies), Thomson Consumer Electronics (televisions and consumer electronics), Hewlett-Packard (computer networking equipment) and Nokia (cell phone accessories);

- RETAILERS such as American Eagle Outfitters (fashion apparel) and Global Sports Interactive (a sporting goods distributor for SportsAuthority.com, AthletesFoot.com, MCSports.com, Sportchalet.com, Sportsandrec.com and other retailers);

- DISTRIBUTORS such as Daisytek (consumable computer supplies), ISA Ltd. (computer and office supplies in Western Europe); and - INTERNET COMMERCE SITES such as RCA.com (television sets and consumer electronics), Lyrazone.com (MP3 players), NokiaUSA.com (cell phone accessories), BargainBid.com (on-line auction) and YardMart.com (lawn and garden products).

We reach these clients through a direct sales force, telemarketing, trade shows, trade journal advertising, our Web site and direct mail programs. We also pursue strategic marketing alliances with Web design firms and e-commerce consultants to provide referrals and customer leads.

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

client projects and maintaining high levels of client satisfaction.

All of our product revenue for fiscal 1999 was generated by sales of product purchased under master distributor agreements with IBM. On an historical basis, Daisytek accounted for 13% of our total revenues in fiscal 1999. On a supplemental pro forma basis, during the three months ended June 30, 1999, Daisytek accounted for approximately 67% of total service fee revenues, and Tektronix accounted for approximately 10%. As we develop new customer relationships, we expect the percent of business related to Daisytek to decline significantly.

Technology

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

We employ technology from a selected group of partners. For example, we use IBM AS/400 and Netfinity servers to run both Web site functions as well as order management and distribution functions, and we use Lucent Technologies for telephone switch and call center management functions. We also use Lucent Technologies for our Web enabled customer care center to interact with customers with voice, e-mail or chat and to communicate with the customer by sharing Web pages between the customer and our customer service representative. Our sophisticated computer-telephony integration has been accomplished by combining systems software from IBM and Lucent Technologies together with our own application development. We use AT&T for our private enterprise network and long distance carrier. We use J.D. Edwards as the software provider for the primary applications that we use in our operational areas and financial areas. We use Rapistan/ Demag for our warehouse management, automated conveyor and "pick-to-light" (inventory retrieval) systems and Telxor for our warehouse radio frequency (RF) applications.

We have developed proprietary technology that is specifically targeted at quickly integrating and synchronizing our systems with those of our clients with a high degree of accuracy and reliability. We can track information sent to us by the client as it moves through our systems in the same manner a package would be tracked by a carrier throughout the delivery process. Our systems enable us to trace at a detailed level what information was received, when it was received, any errors or special handling that had to take place to process it and what was sent back to the client. We have also developed proprietary electronic interfaces that we provide to the client or their selected Web developer to easily integrate their Web site with our systems. These tools allow for efficient customized integration with our client and powerful real-time Web site transaction processing. The implementation of these systems allows us to offer an advanced suite of electronic commerce tools to our clients so that we can communicate with their computer systems and automatically process, send and receive orders, customer data and other information.

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

Our systems development team consists of over 35 information technology professionals whose primary responsibility is directed at implementing custom solutions for new clients and maintaining existing client relationships. Our development team can also produce proprietary systems infrastructure to expand our capabilities in circumstances where we cannot purchase standard solutions from commercial providers. We also utilize temporary resources when needed for additional capacity.

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

Competition

Many companies offer, on an individual basis, one or more of the same services as we do, and many of our competitors have greater financial, distribution and marketing resources than we do. These competitors could potentially use their greater resources to expand their sales efforts, lower prices or increase their range of services to include all the services we offer. In many instances, our competition is the in-house operations of our clients themselves.

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

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

- operating performance and reliability;

- ease of implementation and integration; and - price.

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

Facilities

In the U.S., we operate a nearly one million square foot central distribution complex in Memphis, Tennessee. This complex is located approximately four miles from the Memphis International Airport, where both Federal Express and United Parcel Service operate large hub facilities. This complex contains computerized sorting equipment, powered material handling equipment, scanning and bar-coding systems and automated conveyors, in-line scales and digital cameras to photograph shipment contents for automatic accuracy checking. Our Memphis facility was recently showcased as the Distribution Center of the Month by a leading trade journal for the distribution and material handling industry.

Our receiving and material handling system in our Memphis distribution complex includes several advanced technology enhancements, including radio frequency technology in product receiving processing to ensure accuracy, an automated package routing system and a "pick to light" paperless order picking system. Our advanced distribution systems provide us with the capability to currently warehouse an extensive number of stock keeping units (SKUs) for our clients ranging from high-end laser printers to wide-leg blue jeans, while at the same time retaining the ability to pick, pack and ship single SKUs to individual customers in fulfillment of customer orders.

We currently are operating a distribution center in Aachen, Germany, until we complete a new 150,000 square foot distribution center in Liege, Belgium. We currently expect this new facility to be operational prior to 1999 calendar year-end. This new facility will have many of the same advanced distribution systems and equipment as in our Memphis complex.

Our transitional agreement with Daisytek will provide for our use of its regional customer service, warehouse and distribution facilities in Toronto and Vancouver, Canada; Mexico City, Mexico; Sydney, Australia; and Singapore. We presently plan to establish our own customer service and warehouse and distribution facility in Toronto.

We operate customer service centers in Memphis, Tennessee; Plano, Texas; Toronto, Canada; and Maastricht, The Netherlands. Our call center technology permits the automatic routing of calls to available customer service representatives in several of our call centers.

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

Personnel and Training

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

As of August 31, 1999, we had 314 employees. We currently anticipate that, upon completion of this offering, approximately Daisytek employees will be transferred to us. We are not a party to any collective bargaining agreements, and we have never suffered an interruption of business as a result of a labor dispute. We consider our relationship with our employees to be good.

Regulation

Our business may be affected by current and future governmental regulation. For example, the Internet Tax Freedom Act bars state and local governments from imposing taxes on Internet access or that would subject buyers and sellers of electronic commerce to taxation in multiple states. This act is in effect through October 2000. When the act expires or if the act is repealed, Internet access and sales across the Internet may be subject to additional taxation by state and local governments, thereby discouraging purchases over the Internet and adversely affecting the market for our services.

Management

Executive Officers and Directors

Set forth below are the names and positions of our executive officers and directors. We currently expect to appoint additional directors following the spin-off.

Name Age Position

Mark C. Layton	39	Chairman of the Board, President and Chief Executive Officer
Christopher Yates	44	Executive Vice President, Chief Sales and Marketing Officer and Director
Steven S. Graham	47	Executive Vice President, Chief Information Officer
Thomas J. Madden	38	Executive Vice President, Treasurer,

		Chief Financial and Accounting Officer
C. Clifford Defee	40	Vice President -- Operations and Client Solutions, Chief Operating Officer
Martin L. Anderson	34	Vice President -- Customer Satisfaction
Lindsley D. Medlin Jr.	35	Vice President, Managing Director (PFS Europe)
Scott R. Talley	35	Vice President -- International Distribution
Harvey H. Achatz	58	Vice President -- Administration and Secretary
James R. Powell	38	Director
Timothy M. Murray	47	Director
Peter P. J. Vikanis	48	Director
James F. Reilly	40	Director

Mark C. Layton, has served as Chairman of the Board, President and Chief Executive Officer of PFSweb since its inception. Mr. Layton also serves as President, Chief Executive Officer and Chief Operating Officer of Daisytek, positions he has held since 1997, and as a Director, a position he has held since 1988. Mr. Layton was recently appointed as Chairman of the Board of Daisytek. Mr. Layton served as President, Chief Operating Officer and Chief Financial Officer of Daisytek from 1993 to April 1997, as Executive Vice President from 1990 to 1993 and as Vice President -- Operations from 1988 to 1990. Prior to joining Daisytek, Mr. Layton served as a management consultant with Arthur Andersen & Co., S.C. for six years through 1988 specializing in wholesale and retail distribution and technology. Mr. Layton also serves as a Director of ISA International plc ("ISA"), a distributor of computer supplies in Western Europe, and uBid, Inc., an Internet auction company. Mr. Layton is the author of .coms or .bombs...Strategies for Profit in E-Business and maintains a Web site at www.profits-in-e-business.com. Neither Mr. Layton's book nor his Web site is part of this prospectus, and the information contained in them is not incorporated into this prospectus.

Christopher Yates has served as Executive Vice President, Chief Sales and Marketing Officer and Director of PFSweb since its inception. Mr. Yates also serves as Senior Vice President -- Business Development of Daisytek, a position he has held since 1996, with primary responsibility for PFS. Mr. Yates also serves as a Director of Daisytek, a position he has held since 1995. Mr. Yates served as Vice President -- Business Development of Daisytek from November 1995 to February 1996, as Vice President -- Marketing from January 1994 to November 1995, as Vice President -- Sales from 1988 to 1994 and in various other sales capacities for Daisytek since 1982.

Steven S. Graham has served as Executive Vice President and Chief Information Officer of PFSweb since its inception. Mr. Graham also serves as Senior Vice President of Information Technologies and Chief Information Officer of Daisytek, a position he has held since 1996. Prior to joining Daisytek, Mr. Graham was employed by Ingram Micro, a major microcomputer distributor. Mr. Graham has over 26 years of experience in the information-technology field.

Thomas J. Madden has served as Executive Vice President, Treasurer, Chief Financial Officer and Chief Accounting Officer of PFSweb since its inception. Mr. Madden also serves as Chief Financial Officer of Daisytek, a position he has held since July 1997 and serves as Vice President -- Finance, Treasurer and as Chief Accounting Officer of Daisytek, positions he has held since November 1994, March 1994 and

1992, respectively. From 1992 to 1994 he also served as Controller of Daisytek. From 1983 to 1992, Mr. Madden served in various capacities with Arthur Andersen & Co., S.C., including financial consulting and audit manager.

C. Clifford Defee has served as Vice President -- Operations and Client Solutions and Chief Operating Officer of PFSweb since its inception. Mr. Defee also serves as Vice President -- Operations of PFS, a position he has held since January 1997. From 1984 to 1997, Mr. Defee served as a management consultant with Andersen Consulting, LLP specializing in retail distribution.

Martin L. Anderson has served as Vice President -- Customer Satisfaction of PFSweb since its inception. Mr. Anderson also serves as Vice President -- Call Center Operations of PFS, a position he has held since March 1998, and has served in various other capacities for Daisytek since 1990.

Lindsley D. Medlin Jr. has served as Vice President and Managing Director (PFS Europe) of PFSweb since its inception. Mr. Medlin also serves as Director and Managing Director of PFS Europe, a position he has held since December 1998, and has served in various other capacities for Daisytek since 1988.

Scott R. Talley has served as Vice President -- International Distribution for PFSweb since its inception. Mr. Talley also serves as Vice President -- Distribution of PFS, a position he has held since April 1999, and has served in various other capacities for Daisytek since 1991.

Harvey H. Achatz has served as Vice President -- Administration and Secretary of PFSweb since its inception. Mr. Achatz also serves as Vice President -- Administration and Secretary of Daisytek, positions he has held since 1993 and 1984, respectively, and served as Vice President -- Finance from 1985 to 1993, as Controller from 1981 to 1985 and as a Director from 1984 to 1990.

James R. Powell has served as a Director of PFSweb since its inception. Mr. Powell also serves as a Director and Senior Vice President -- Sales and Marketing of Daisytek, a position he has held since 1996. Mr. Powell has served as Vice President -- Sales of Daisytek from 1992 to 1996 and in various other sales capacities from 1988 to 1992. Prior to joining Daisytek, Mr. Powell was engaged in various sales and marketing activities. Mr. Powell is a non-employee director.

Timothy M. Murray has served as a Director of PFSweb since its inception. Mr. Murray also serves as a Director of Daisytek, a position he has held since 1991. Mr. Murray is a Principal of William Blair & Company, L.L.C., an investment banking firm he joined in 1979. Mr. Murray is also a director of MedE America Corporation, a healthcare transaction processor, and several privately held corporations. Mr. Murray is a non-employee Director.

Peter P. J. Vikanis has served as a Director of PFSweb since its inception. Mr. Vikanis also serves as a Director of Daisytek, a position he has held since 1996. Mr. Vikanis served as Chief Operating Officer of ISA from 1991 to 1995, as a director of ISA from 1979 to 1995, and also served in various management capacities at ISA from 1971 to 1991. Mr. Vikanis presently serves as a non-Executive Director of ISA. Mr. Vikanis is a non-employee Director.

James F. Reilly has served as a Director of PFSweb since its inception. Mr. Reilly also serves as a Director of Daisytek, a position he has held since October 1998. Mr. Reilly is a Managing Director in the Technology Group of Warburg Dillon Read, the global investment banking division of UBS AG. Mr. Reilly has been with Warburg Dillon Read or one of its predecessor companies since 1983 and specializes in corporate finance advisory work for a broad range of technology companies, including distribution companies. Mr. Reilly is a non-employee Director. 48 We currently expect that, upon completion of the spin-off, our executive officers will no longer serve as officers of Daisytek, although we currently expect that Messrs. Layton and Yates will remain as directors of Daisytek.

Board Structure and Committees

Our Board is divided into three classes serving staggered terms. After an initial transition period, directors in each class will be elected to serve for three-year terms and until their successors are elected and qualified. Each year, the directors of one class will stand for election as their terms of office expire. Presently, Messrs. Reilly and Vikanis are designated as Class I directors, with their terms of office expiring in 2000; Messrs. Powell and Yates are designated as Class II directors, with their terms of office expiring in 2001; and Messrs. Murray and Layton are designated as Class III directors, with their terms of office expiring in 2002. We presently expect that, prior to or following the spin-off, our Board may appoint as Class II or Class III directors one or more additional outside directors who are not employed by Daisytek.

We have two standing committees: an Audit Committee and a Compensation Committee. Messrs. Murray and Vikanis have been appointed as the initial members of the Audit Committee, and Messrs. Reilly and Murray have been appointed as the initial members of the Compensation Committee. As additional persons join our Board following the spin-off, it is possible that membership on some of these committees may be modified.

The Audit Committee will select the independent public accountants to audit our annual financial statements and will establish the scope and oversee the annual audit. The Compensation Committee will determine the compensation for employee directors and, after receiving and considering the recommendation of our Chief Executive Officer and the President, all officers of the company and any other employee that the Compensation Committee may designate from time to time and will approve and administer employee stock option and incentive plans. Our Board may establish other committees from time to time to facilitate the management of the business and affairs of our company.

Non-employee Director Compensation; Stock Option and Retainer Plan

Each non-employee director receives an annual director's fee of $20,000 for each year in which he or she serves as a director. Non-employee directors do not receive additional Board or Committee meeting fees.

We have also adopted a Non-Employee Director Stock Option and Retainer Plan to help attract and retain non-employee directors. There are 250,000 shares of our common stock reserved for issuance under the Plan. The Plan is administered by our Board of Directors or a committee appointed by the Board. Under the Plan, following the completion of the spin-off and subject to certain conditions, each non-employee director may elect to receive payment of his or her director's fees in shares of common stock in lieu of cash. In addition, under the Plan, each non-employee director received, as of the date of the adoption of the Plan, an option to purchase 35,000 shares of common stock with an exercise price of $10.45 per share. The Plan also provides for the future issuance to each non-employee director of options to purchase 10,000 shares of common stock as of the date of each annual meeting of stockholders.

All options issued under the Plan are non-qualified options for federal income tax purposes and have an exercise price equal to the fair market value of a share of common stock as of the date of grant. All options have a ten year term and are subject to a one year vesting schedule, except that any options issued prior to the effective date of the spin-off, including the initial option grant, have no vesting for three years, subject to acceleration, in part, upon completion of the spin-off. Generally, unless the Plan administrator otherwise provides, options are non-transferable other than by will or the laws of descent and distribution. At the time of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate 49 structure or capitalization affecting our common stock, the Plan administrator will make appropriate adjustments to the exercise price, number and kind of shares to be issued under the Plan and any outstanding options. Unless terminated earlier, the Plan will terminate ten years from its adoption, and no stock options will be granted after the Plan terminates. Our board of directors has the authority to amend, modify, suspend or terminate the Plan at any time.

Directors who are also employees of PFSweb receive no remuneration for serving as directors or committee members.

Stock Ownership of Directors and Executive Officers

All of our stock is currently owned by Daisytek, and, thus, none of our officers or directors own any of our common stock. To the extent any of our directors and officers own shares of Daisytek common stock at the time of the spin-off, they will participate in the spin-off on the same terms as other holders of Daisytek common stock. We have adopted the stock option plans described in this prospectus and certain of our officers and directors hold options to purchase shares of our common stock.

The following table sets forth the number of shares of Daisytek common stock beneficially owned on September 15, 1999 by each director and executive officer and all directors and executive officers of PFSweb as a group. Applicable percentage ownership is based on 17,171,452 shares of Daisytek common stock outstanding on September 15, 1999.

Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of September 15, 1999 are deemed outstanding. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite such stockholder's name. Except as otherwise noted, the individual director or executive officer or their family members had sole voting and investment power with respect to such securities.

Number of Name Shares Percent

Mark C. Layton(1)	333,038	1.9%
Christopher Yates(2)	89,951	*
Steven S. Graham(3)	38,445	*
Thomas J. Madden(4)	88,154	*
C. Clifford Defee(5)	6,121	*
James R. Powell(6)	37,620	*
Timothy M. Murray(7)	83,401	*
Peter P.J. Vikanis(8)	9,347	*
James F. Reilly	7,111	*
Martin L. Anderson(9)	17,130	*
Lindsley D. Medlin Jr.(10)	36,700	*
Scott R. Talley(11)	9,163	*
Harvey H. Achatz(12)	64,427	*
All directors and executive officers as a group (13 persons)(13)	820,608	4.8%

* Represents less than 1% (1) Includes outstanding options to purchase 116,864 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 465,686 shares of common stock, which are not vested or exercisable.

(2) Includes outstanding options to purchase 88,951 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 258,093 shares of common stock, which are not vested or exercisable.

(3) Includes outstanding options to purchase 35,445 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 210,857 shares of common stock, which are not vested or exercisable.

(4) Includes outstanding options to purchase 64,978 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 210,758 shares of common stock, which are not vested or exercisable.

(5) Includes outstanding options to purchase 6,121 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 111,118 shares of common stock, which are not vested or exercisable.

(6) Includes outstanding options to purchase 37,620 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 362,213 shares of common stock, which are not vested or exercisable.

(7) Includes outstanding options to purchase 2,690 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 4,788 shares of common stock, which are not vested or exercisable.

(8) Includes outstanding options to purchase 2,690 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 4,788 shares of common stock, which are not vested or exercisable.

(9) Includes outstanding options to purchase 16,380 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 87,267 shares of common stock, which are not vested or exercisable.

(10) Includes outstanding options to purchase 27,887 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 82,663 shares of common stock, which are not vested or exercisable.

(11) Includes outstanding options to purchase 9,163 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 73,125 shares of common stock, which are not vested or exercisable.

(12) Includes outstanding options to purchase 8,649 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase 11,215 shares of common stock, which are not vested or exercisable.

(13) Includes outstanding options to purchase an aggregate of 417,438 shares of common stock, which are fully vested and exercisable. Does not include outstanding options to purchase an aggregate of 1,882,571 shares of common stock, which are not vested or exercisable.

Executive Compensation

The following table sets forth certain compensation information for the chief executive officer and the four other executive officers of PFSweb who, based on salary and bonus compensation from Daisytek and its subsidiaries, were the most highly compensated officers of PFSweb for fiscal year 1999. All information set forth in this table reflects compensation earned by such individuals for services with Daisytek and its subsidiaries for fiscal 1999.

Summary Compensation Table

					LONG-TERM COMPENSATION AWARDS NUMBER OF

NAME AND POSITION WITH DAISYTEK	ANNUAL COMPENSATION YEAR	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION(1)
Mark C. Layton.....	1999	$337,819	$175,160	412,080	$18,063
President, Chief Executive	1998	319,599	269,196	122,836	9,731
and Operating Officer	1997	299,013	222,900	69,832	8,458
Christopher Yates.....	1999	263,361	57,803	222,026	9,534
Senior Vice President --	1998	248,454	88,835	84,742	6,088
Business Development	1997	232,200	73,557	41,120	5,004
Steven S. Graham.....	1999	200,950	57,803	186,302	9,489
Senior Vice President --	1998	189,491	88,835	60,000	37,829
Information Technologies	1997	78,268	32,439	50,000	5,610
and Chief Information Officer					
Thomas J. Madden.....	1999	124,000	35,032	185,980	5,638
Vice President -- Finance,	1998	124,000	53,839	60,350	5,569
Chief Financial and	1997	118,000	22,900	33,174	4,618
Accounting Officer					
C. Clifford Defee.....	1999	175,926	--	110,139	344
Vice President -- PFS	1998	146,091	--	8,000	165

(1) Represents compensation in respect of one or more of the following: personal use of automobiles; life insurance premiums paid for the benefit of the named executive officer; tax return preparation services; personal travel expenses and relocation costs.

Grant of Daisytek Stock Options in Fiscal 1999

The following table sets forth information with respect to grants of stock options to purchase shares of Daisytek common stock during fiscal 1999 to the named executive officers reflected in the Summary Compensation Table. Unless exercised prior thereto, the options to purchase Daisytek common stock reflected below will be replaced with options to purchase PFSweb common stock in connection with the completion of the spin-off. See "Substitute Stock Options."

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS(2)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE(1)	5%	10%
Mark C. Layton.....	52,080	1.9%	$22.88	6-18-08	$ 749,221	$1,898,673
	360,000	13.0	12.88	12-15-08	2,914,927	7,386,996
Christopher Yates....	42,026	1.5	22.88	6-18-08	604,585	1,532,136
	180,000	6.5	12.88	12-15-08	1,457,463	3,693,498
Steven S. Graham.....	36,302	1.3	22.88	6-18-08	522,239	1,323,457
	150,000	5.4	12.88	12-15-08	1,214,553	3,077,915
Thomas J. Madden.....	35,980	1.3	22.88	6-18-08	517,607	1,311,718
	150,000	5.4	12.88	12-15-08	1,214,553	3,077,915
C. Clifford Defee....	20,139	0.7	22.88	6-18-08	289,719	734,205
	90,000	3.2	12.88	12-15-08	728,732	1,846,749

(1) Options expiring in June 2008 are subject to a three year cumulative vesting and options expiring in December 2008 are subject to a four or five year cumulative vesting schedule.

(2) These are hypothetical values using assumed annual rates of stock price appreciation as prescribed by the rules of the SEC.

Exercises of Daisytek Stock Options and Fiscal Year-end Option Values

The following table shows aggregate exercises of options to purchase Daisytek common stock in fiscal 1999 by the executive officers named in the Summary Compensation Table above. Unless exercised prior thereto, the unexercised options reflected below will be replaced with options to purchase PFSweb common stock in connection with the completion of the spin-off. See "Substitute Stock Options."

			NUMBER OF SECURITIES UNDERLYING		VALUE OF UNEXERCISED
	NUMBER OF		UNEXERCISED OPTIONS		IN-THE-MONEY OPTIONS
	SHARES		AT FISCAL YEAR END		AT FISCAL YEAR END(1)
	ACQUIRED ON	VALUE			
NAME	EXERCISE	RECEIVED(2)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE UNEXERCISABLE
Mark C. Layton.....	--	--	66,060	516,490	$403,491 $1,780,691
Christopher Yates.....	--	--	52,987	294,057	329,330 972,128
Steven S. Graham.....	--	--	9,000	237,302	37,125 772,875
Thomas J. Madden.....	20,726	$440,285	38,458	237,278	239,506 774,104
C. Clifford Defee.....	900	11,700	300	116,939	1,238 365,550

(1) Calculated by determining the difference between $16 5/8 (the last sale price of the Daisytek common stock on March 31, 1999 as reported by the Nasdaq National Market) and the exercise price of the shares of Daisytek common stock underlying the options.

(2) Calculated by determining the difference between the last sale price of the Daisytek common stock on the date of exercise as reported by the Nasdaq National Market and the exercise price.

Pfsweb Stock Option and Incentive Plans

We have adopted, with the approval of Daisytek in its capacity as the sole stockholder of PFSweb, the PFSweb Employee Stock Option Plan and the PFSweb Annual Incentive Plan. These plans will be administered by the Compensation Committee.

Employee Stock Option Plan The Employee Stock Option Plan provides for the grant of stock options to all officers and full-time employees of PFSweb who are eligible to participate. The purpose of the Plan is to further our growth, development and financial success by providing incentives to our officers and employees by assisting them to become owners of our common stock. An aggregate of 5,750,000 shares of common stock are reserved for issuance to employees under the Plan, which includes substitute stock options which will be issued in replacement of outstanding Daisytek stock options. See "Substitute Stock Options."

The Plan is administered by a committee of the Board of Directors (the "Stock Option Committee"). The Stock Option Committee consists of two or more Directors, appointed by and holding office at the pleasure of the Board of Directors. The Board may, and currently intends, to limit the members of the Stock Option Committee to Directors who are both "non-employee directors", as defined in Rule 16b-3 under the Securities Exchange Act of 1934, and "outside directors", as defined in Section 162(m) of the Internal Revenue Code. The Stock Option Committee has complete authority and discretion to determine from among eligible persons those to whom options will be granted and the number and terms of such options. The Board has authorized the Compensation Committee to serve as the Stock Option Committee.

The Plan provides for the granting of both incentive stock options and non-qualified stock options under the Code. The exercise price of options granted under the Plan may not be less than 100% of the fair market value on the date of the grant, except that incentive stock options granted to individuals owning more than ten percent of the total combined voting power of PFSweb may not have an exercise price less than 110% of the fair market value on the date of grant. The Plan gives the Stock Option Committee complete discretion as to the times at which the options are exercisable, provided that such options must expire no later than ten years from the date of grant.

Options are exercisable at such times and in such installments (which may be cumulative) as the Stock Option Committee may provide in the terms of each individual option. Generally, options granted under the Plan are expected to be subject to multi-year cumulative vesting schedules as shall be determined by the Stock Option Committee, in its discretion.

The Plan permits the Stock Option Committee to authorize and approve the issuance of immediately exercisable options to purchase restricted stock subject to restrictions on transfer and forfeiture, and, subject to such terms and conditions as the Stock Option Committee shall determine in its sole discretion, the acceptance of promissory notes and/or shares of our common stock (whether issued upon exercise of outstanding options or otherwise) in payment of the option exercise price (or applicable taxes arising in connection therewith). Generally, options issued under the Plan are non-transferable other than by will or the laws of descent and distribution, except that the Stock Option Committee may approve the transferability of non-qualified options to family members and family trusts of option holders or other transferees.

At the time of any merger, consolidation, reorganization, recapitalization, stock dividend, stock split, or other change in the corporate structure or capitalization affecting our common stock, the Stock Option Committee will make appropriate adjustments to the exercise price, number and kind of shares to be

issued under the Plan and any outstanding options. Unless terminated earlier, the Plan will terminate ten years from its adoption, and no stock options will be granted after the Plan terminates. Our board of directors or the Stock Option Committee has the authority to amend, modify, suspend or terminate the Plan at any time, subject to any requirement of stockholder approval under the Code or other applicable law.

There are currently an aggregate of 1,201,500 options outstanding under the Employee Stock Option Plan that are held by an aggregate of 193 officers and employees. All of these options have a weighted average exercise price of $10.52 per share and are subject to a three year vesting schedule, under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off. The following table sets forth information with respect to grants of stock options under the Employee Stock Option Plan to the named executive officers reflected in the Summary Compensation Table.

	INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERMS(1)	
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE	5%	10%
Mark C. Layton.....	90,000	7.5%	$10.45	7-1-09	$591,475	$1,498,915
Christopher Yates....	85,000	7.1	10.45	7-1-09	558,616	1,415,642
Steven S. Graham.....	75,000	6.2	10.45	7-1-09	492,896	1,249,096
Thomas J. Madden.....	85,000	7.1	10.45	7-1-09	558,616	1,415,642
C. Clifford Defee....	80,000	6.7	10.45	7-1-09	525,756	1,332,369

(1) These are hypothetical values using assumed annual rates of stock price appreciation as prescribed by the rules of the SEC.

Substitute Stock Options In connection with the completion of the spin-off, all Daisytek stock options held by Daisytek employees who are transferred to PFSweb will be replaced with options to acquire a number of shares of our common stock equal to the number of shares of Daisytek common stock subject to such Daisytek stock option as of the date of the completion of the spin-off, multiplied by the Ratio described below, rounded down to the nearest whole share. The per share exercise price of such replaced stock option will equal the per share exercise price of such Daisytek stock option divided by the Ratio.

The "Ratio" means the amount determined by dividing:

- the average of the daily high and low per share prices of the Daisytek common stock, as reported in The Wall Street Journal, during the three trading days ending on the record date established by the Daisytek Board of Directors for the spin-off; by - the average of the daily high and low per share prices of the PFSweb common stock, as reported by The Wall Street Journal, for the three trading days commencing on the day after such record date.

Substantially all of the other terms and conditions of each substitute stock option, including the time or times when, and the manner in which, each option will be exercisable, the duration of the exercise period, the permitted method of exercise, settlement and payment, the rules that will apply in the

event of the termination of employment of the employee, the events, if any, that may give rise to an employee's right to accelerate the vesting or the time or exercise thereof and the vesting provisions, will be the same as those of the replaced Daisytek stock option.

It is not possible at this time to specify how many shares of our common stock will be subject to substitute stock options in replacement of Daisytek stock options. We expect that some Daisytek stock options may be exercised, some will vest and other Daisytek stock options could be terminated, prior to the date of the completion of the spin-off. In addition, the Ratio will not be known until the time of the spin-off. Our stockholders, are, however, likely to experience some dilutive impact from the above-described adjustments.

As of , 1999, there were shares of Daisytek common stock subject to Daisytek stock options that will be replaced upon completion of the spin-off, and these options had a weighted average exercise price of $ per share. If the Ratio were determined as of such date, then based on a price of $ per share for the Daisytek common stock and a price of $13.00 per share for our common stock (the mid-point of the range set forth on the cover page of this prospectus), the foregoing number of shares of Daisytek common stock subject to Daisytek stock options would be replaced with options for shares of our common stock at a weighted average exercise price of $ per share.

Annual Incentive Plan Officers and certain other key employees of PFSweb will be eligible to participate in the Annual Incentive Plan. The Compensation Committee may delegate authority to the PFSweb Board to determine individual awards to key employees who are not officers of PFSweb. The Plan provides for the opportunity to grant cash awards based upon the achievement of certain target levels of performance.

Under the Plan, at the beginning of each year, the Compensation Committee is authorized, but not required, to establish a targeted performance level at which a target performance award may be earned, with a threshold or minimum performance level below which no award will be paid, and a maximum level beyond which no additional amounts will be paid, and to establish the corresponding minimum and maximum awards. In determining the performance criteria applicable to any grant of awards, the Compensation Committee may use one or more business criteria it deems appropriate. The Plan is discretionary, and the Compensation Committee or the Board may elect not to grant any awards in any year.

The percentage of each target performance award which will become a final award and be paid to the employee will be determined by the Compensation Committee on the basis of the performance goals established and the related performance achieved, as well as the employee's individual performance during the period. Final awards actually paid to an employee may be less than or greater than 100% of the target award. Final awards may be subject to a vesting schedule established by the Compensation Committee. The Compensation Committee may delegate authority to the PFSweb Board to determine individual final awards for employees who are not officers, subject to a maximum amount approved by the Compensation Committee.

Subject to certain exceptions, the Compensation Committee generally has the power and authority to amend, modify, suspend or terminate the Plan.

No awards have been granted under the Plan, nor has the Compensation Committee established any targeted performance levels for 1999 or for any year thereafter.

Compensation Committee Interlocks and Insider Participation.

The members of our Compensation Committee are Messrs. Reilly and Murray, who also serve as the members of the Compensation Committee of Daisytek.

Certain Transactions

The separation of PFSweb from Daisytek will be effected pursuant to a Master Separation Agreement and other ancillary agreements that will govern various interim and ongoing relationships between us and Daisytek. These agreements relate to this offering and the spin-off, our provision of transaction management services to Daisytek, tax matters and the provision of certain interim services. These agreements also require us to cooperate with Daisytek to complete the spin-off and provide for registration rights for Daisytek in the event the spin-off is not completed or is completed without Daisytek divesting itself of all of its PFSweb common stock.

All of our agreements with Daisytek were made in the context of a parent-subsidiary relationship and were negotiated in the overall context of our spin-off from Daisytek. Although we generally believe that the terms of these agreements are consistent with fair market values, we cannot assure you that the prices charged to us, or by us, under these agreements are not higher or lower than the prices that may be charged by, or to, unaffiliated third parties for similar services.

We have set forth below a summary description of the Master Separation Agreement and certain of the ancillary agreements. This description, which summarizes the material terms of such agreements, is not complete. You should read the full text of these agreements, which have been filed with the SEC as exhibits to the registration statement of which this prospectus is a part.

Master Separation Agreement

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

Transfer of Assets and Liabilities. Upon completion of this offering, Daisytek will transfer to us assets, including all fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb, and we will transfer to Daisytek $5.7 million in cash and assume $0.3 million of capital lease obligations, as well as the operating lease obligations related to

these assets. We will also repay to Daisytek, from the net proceeds of this offering, the then outstanding balance of our payable to Daisytek ($ million at October 31, 1999). Daisytek is not making any representation or warranty with respect to any asset being transferred to us.

Indemnification. We have agreed to indemnify Daisytek against any losses, claims, damages or liabilities arising from the liabilities transferred to us and the conduct of our business after the completion of this offering. Daisytek has agreed to retain and indemnify us against any losses, claims, damages or liabilities arising from the conduct of our business prior to the completion of this offering.

Initial Public Offering and Distribution Agreement

General. We will enter into an Initial Public Offering and Distribution Agreement with Daisytek which governs our respective rights and duties with respect to this offering and the spin-off, and sets forth certain covenants to which we will be bound for various periods following the offering and the spin-off. Although Daisytek has announced that it plans to complete the spin-off, and we have agreed to cooperate with Daisytek to complete the spin-off, there are various conditions to the completion of the spin-off. Consequently, we cannot assure you as to whether or when the spin-off will occur.

The Spin-off. The completion of the spin-off is subject to the satisfaction, or waiver by Daisytek in its sole discretion, of various conditions, including the following:

- Receipt by Daisytek of a ruling by the Internal Revenue Service that, among certain other tax consequences of the transaction, the spin-off will qualify as a tax-free distribution for federal income tax purposes and will not result in the recognition of taxable gain or loss for federal income tax purposes to Daisytek or its shareholders. Daisytek may, in its sole and absolute discretion, determine not to seek such a ruling and instead proceed on the basis of an opinion from its professional advisor, in form and substance reasonably satisfactory to it, as to the qualification of the transaction for tax-free treatment.

- Obtaining any material consents necessary to consummate the spin-off which shall be in full force and effect.

- No court orders, injunctions, decrees, regulations or other legal restraint prohibiting or restricting the completion of the spin-off shall exist.

- No events or developments shall have occurred subsequent to the closing of this offering that, in the sole judgement of Daisytek, would result in the spin-off having a materially adverse effect on Daisytek, PFSweb, or their shareholders.

We have agreed to cooperate with Daisytek to accomplish the spin-off and, at Daisytek's direction, promptly take all actions necessary or desirable to effect the spin-off. In the event that any of these conditions are not satisfied, or waived by Daisytek in its sole discretion, Daisytek's rights and our obligations under the Registration Rights Agreement described below will become immediately effective.

Substitute Stock Options. In connection with the completion of the spin-off, all Daisytek stock options held by Daisytek employees who are transferred to PFSweb will be replaced with options to acquire shares of our common stock. See "Substitute Stock Options."

Preservation of the Tax-free Status of the Spin-off. Daisytek intends for the spin-off to qualify as a tax-free distribution under Section 355 of the Code to Daisytek and its stockholders. Daisytek intends to seek either a private letter ruling (the "IRS Ruling") from the Internal Revenue Service or an opinion from its professional tax adviser (the "Tax Opinion") to such effect. In either case, we will be required to make certain representations and warranties regarding our company and our business and Daisytek will be required to make certain representations and warranties regarding it and its business. We have also agreed to certain covenants that are intended to preserve the tax-free status of the spin-off. We may take any action otherwise prohibited by these covenants only if Daisytek has determined, in its sole and absolute discretion, that such action would not jeopardize the tax-free status of the spin-off. These covenants include:

- Stock Issuance. Prior to the completion of the spin-off, we have agreed not to issue shares of our capital stock in an amount that would result in Daisytek owning less than 80% of the total combined voting power of all outstanding shares of our voting stock and/or less than 80% of any other class and/or series of PFSweb capital stock (or otherwise cause Daisytek not to be in control of PFSweb immediately prior to the spin-off, within the meaning of Section 368(c) of the Code). This covenant will not prohibit us from issuing stock options to our employees or outside directors so long as such options will not vest or be exercisable prior to the effective date of the spin-off or we repurchase sufficient shares of our capital stock prior to the date when such options become exercisable to ensure that Daisytek's ownership remains at or higher than 80% and Daisytek approves of our procedures to comply with this covenant.

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

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

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

- Continuity of Business. Until two years after the completion of the spin-off, we have agreed that we will not voluntarily dissolve or liquidate; and, except in the ordinary course of business, neither we nor any of our direct or indirect subsidiaries will sell, transfer, or otherwise dispose of or agree to dispose of

assets (including any shares of capital stock of our subsidiaries) that, in the aggregate, constitute more than 60% of our assets.

- Discharge of Intracompany Debt. Prior to the first date on which Daisytek distributes any PFSweb common stock in connection with the spin-off, we have agreed to fully discharge and satisfy all debt that we owe Daisytek (for such purpose, debt does not include payables arising in the ordinary course of business). Until two years after the completion of the spin- off, we will not be able to have any such indebtedness with Daisytek.

These covenants will not prohibit us from implementing or complying with any transaction permitted by an IRS ruling or a tax opinion. In the event that Daisytek notifies us that it no longer intends to proceed with or complete the spin-off and Daisytek has not yet distributed any of its PFSweb common stock, these covenants to preserve the tax-free status of the spin-off will terminate.

Other Covenants Regarding Tax Treatment of the Transactions. Daisytek intends the transfer of assets and liabilities from Daisytek to our company as provided by the master separation agreement (the "Contribution") to qualify as a reorganization under Section 368(a)(1)(D) of the Code (a "D Reorganization"). Until two years after the completion of the spin-off, we have agreed not to take, or permit any of our subsidiaries to take, any actions or enter into any transaction or series of transactions that would be reasonably likely to jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization, including any action or transaction that would be reasonably likely to be inconsistent with any representation made in connection with Daisytek's request for the IRS Ruling or Tax Opinion. We have also agreed to take any reasonable actions necessary for the Contribution and the spin-off to qualify as a D Reorganization. We may take any action that would otherwise violate this covenant only if Daisytek determines, in its sole and absolute discretion, that such action or transaction would not jeopardize the tax-free status of the spin-off or the qualification of the Contribution as a D Reorganization.

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

Indemnification for Tax Liabilities. We have generally agreed to indemnify Daisytek and its affiliates against any and all tax-related losses incurred by Daisytek in connection with any proposed tax assessment or tax controversy with respect to the spin-off or the Contribution to the extent caused by any breach by us of any of our representations, warranties or covenants. This indemnification does not

apply to actions that Daisytek permits us to take as a result of a determination under the tax-related covenants as described above. Similarly, Daisytek has agreed to indemnify us and our affiliates against any and all tax-related losses incurred by us in connection with any proposed tax assessment or tax controversy with respect to the spin-off or the Contribution to the extent caused by any breach by Daisytek of any of its representations, warranties or covenants.

Other covenants. After the offering, Daisytek will continue to own a significant portion of our common stock. As a result, Daisytek will continue to include us as a "subsidiary" for various financial reporting, accounting and other purposes. Accordingly, for so long as Daisytek continues to own at least 50% of our outstanding common stock, we have agreed that:

- we will not, without Daisytek's prior written consent (which it may withhold in its sole and absolute discretion), take any action which has the effect of limiting Daisytek's ability to freely sell, pledge or otherwise dispose of shares of our common stock or limiting the legal rights of or denying any benefit to Daisytek as a stockholder in a manner not applicable to stockholders generally;

- we will not, without Daisytek's prior written consent (which it may withhold in its sole and absolute discretion), issue any shares of common stock or any rights, warrants or options to acquire our common stock, if, after giving effect to such issuance, Daisytek would own less than 50% of the then outstanding shares of our common stock, except that this will not restrict us from issuing options that will not vest or become exercisable prior to the effective date of the spin-off; and - to the extent that Daisytek is a party to, or enters into, any agreements that provide that certain actions of Daisytek's subsidiaries may result in Daisytek being in breach or default under such agreements (and we have been advised of the existence of such agreements), we will not take any actions that may result in Daisytek being in breach or default under any such agreement.

Financial Information. We have agreed that, for so long as Daisytek is required to consolidate our results of operations and financial position or account for its investment in our company, we will provide Daisytek certain financial information regarding our company and our subsidiaries, including copies of all quarterly and annual financial information and other reports and documents we intend to file with the SEC prior to such filings (as well as final copies upon filing) and copies of our budgets and financial projections (as well as the opportunity to meet with our management to discuss such budgets and projections). We have also agreed to consult with Daisytek regarding the timing and content of earnings releases and cooperate fully (and cause our accountants to cooperate fully) with Daisytek in connection with any of its public filings. This covenant is subject to appropriate confidentiality provisions to protect the confidentiality commitments we have made to our customers.

Auditors and Audits; Annual Statements and Accounting. We have agreed that, for so long as Daisytek is required to consolidate our results of operations and financial position or account for its investment in our company, we will not change our auditors (which currently are the same auditors as those retained by Daisytek) without Daisytek's prior written consent (which will not be unreasonably withheld) and will use our best efforts to enable our auditors to complete their audit of our financial statements so that they will date their opinion the same date that they date their opinion on Daisytek's financial statements. We have also agreed to provide to Daisytek and its auditors all information

required for Daisytek to meet its schedule for the filing and distribution of its financial statements and to make available to Daisytek and its auditors all work papers related to the annual audit of our company as well as access to the personnel who perform the annual audit and our and our subsidiaries' books and records so that Daisytek and its auditors may conduct reasonable audits relating to our financial statements. We have also agreed to adhere to certain specified accounting standards and to notify and consult with Daisytek regarding any changes to our accounting principles and make any changes to our accounting estimates and principles requested by Daisytek.

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

Expenses. In general, we have agreed to pay all costs and expenses relating to this offering, including the underwriting discounts and commissions, and Daisytek has agreed to pay all costs and expenses relating to the spin-off.

Registration Rights Agreement

In the event the spin-off is not completed and Daisytek does not divest itself of all of its shares of PFSweb common stock, Daisytek could not freely sell all of such shares without registration under the Securities Act. Accordingly, we will enter into a registration rights agreement with Daisytek to provide it with certain registration rights relating to the shares of our common stock which it holds. These registration rights generally become effective at such time as Daisytek informs us that it no longer intends to or complete the spin-off.

Shares Covered. The registration rights agreement covers those shares of our common stock that are held by Daisytek immediately following this offering and continue to be held by Daisytek on the date on which Daisytek notifies us that it no longer intends to complete the spin-off.

Demand Registrations. Daisytek may request registration (each, a "Demand Registration") under the Securities Act of all or any portion of our shares covered by the registration rights agreement and we will be obligated to register such shares as requested by Daisytek. There is no limit to the number of Demand Registrations that Daisytek may request, except that the number of shares to be registered must have an aggregate expected offering price of at least $10 million.

Terms of Each Offering. Daisytek will designate the terms of each offering effected pursuant to a Demand Registration, which may take any form, including an underwritten public offering, a shelf registration, or a registration in connection with an exchange offer or other distribution.

Timing of Demand Registrations. We are not required to undertake a Demand Registration within 90 days of the effective date of a previous Demand Registration, other than a Demand Registration that was effected as a shelf registration. Also, we have the right to postpone the filing or effectiveness of any Demand Registration for up to 90 days if in the reasonable judgment of our counsel such registration would reasonably be expected to have a material adverse effect on any of our existing proposals or plans to engage in certain material transactions; provided, however, that we may exercise this right only once in any 12-month period.

Priority on Demand Registrations. We and other parties can participate in any Demand Registration only if all of the securities Daisytek proposes to include in such registration are so included.

Piggyback Registrations. The registration rights agreement also provides for "piggyback" registration rights for Daisytek. Whenever we propose to register any of our securities under the Securities Act for ourselves or others, subject to certain customary exceptions, we must provide prompt notice to Daisytek and include in such registration all shares of our stock which Daisytek requests to be included (each, a "Piggyback Registration").

Priority on Piggyback Registrations. If a Piggyback Registration is being made on our behalf and the underwriters advise us that a reduction in the number of shares to be sold is necessary, we must include in such registration: first, the securities we propose to offer; second, the securities requested to be included by Daisytek; and third, any other securities requested to be included in such registration. If a Piggyback Registration is being made on behalf of other holders of our securities and the underwriters advise us that a reduction in the number of shares to be sold is necessary, we must include in such registration: first, the securities requested to be included therein by the holders requesting such registration and the securities requested to be included therein by Daisytek, pro rata among such holders and Daisytek on the basis of the number of securities owned by each such holder; and second, any other securities requested to be included in such registration.

Registration Procedures and Expenses. The registration rights agreement sets forth various registration procedures, including a covenant by us to make available our senior management for road show presentations. All registration expenses incurred in connection with the registration rights agreement, including all filing fees, fees and expenses of compliance with securities and/or blue sky laws, financial printing expenses, fees and disbursements of custodians, transfer agents, exchange agents and/or information agents, and fees and disbursements of counsel and all independent certified public accountants, underwriters (excluding discounts and commissions) and other persons retained by us will be paid by us. In addition, we must reimburse Daisytek for the fees and disbursements of its outside counsel as well as out-of-pocket expenses incurred in connection with any such registration.

Indemnification. The registration rights agreement contains indemnification and contribution provisions by us for the benefit of Daisytek and any underwriters and by Daisytek for the benefit of us and any underwriters with respect to information provided by Daisytek.

Transfer. Daisytek may transfer shares covered by the registration rights agreement and the holders of such transferred shares will be entitled to the benefits of the registration rights agreement; provided that each such transferee agrees to be bound by the terms of the registration rights agreement.

Duration. The registration rights under the registration rights agreement will remain in effect with respect to any shares of our common stock until:

- such shares have been sold pursuant to an effective registration statement under the Securities Act;

- such shares have been sold to the public pursuant to Rule 144 under the Securities Act (or any successor provision);

- such shares have been otherwise transferred, new certificates for them not bearing a legend restricting further transfer shall have been delivered by the company and subsequent public distribution of them shall not require registration of them under the Securities Act or any similar state law;

- such shares have ceased to be outstanding; or - in the case of shares held by a transferee of Daisytek, when such shares become eligible for sale pursuant to Rule 144(k) under the Securities Act (or any successor provision).

Tax Matters

We will enter into a tax allocation agreement with Daisytek to govern the allocation of tax liabilities and to set forth agreements with respect to certain other tax matters. Generally, under the Code, we will cease to be a member of the Daisytek consolidated group upon the completion of the spin-off or if Daisytek owns less than 80% of our outstanding capital stock.

Daisytek generally will pay all taxes attributable to PFSweb and its subsidiaries for tax periods or portions thereof ending on or before the effective date of this offering, except to the extent of any accruals therefor on the books and records of PFSweb or its subsidiaries for such taxes under generally accepted accounting principles. Thereafter, for tax periods or portions thereof during which we are a member of the Daisytek consolidated, combined or unitary group, we will be apportioned our share of the group's income tax liability based on our taxable income determined separately from Daisytek's taxable income, and we will pay our calculated taxes to Daisytek, which will then file a consolidated, combined or unitary return with the appropriate tax authorities. There may be certain U.S. state or local jurisdictions in which we will file separate income tax returns, not combined or consolidated with Daisytek, for such tax periods. In that circumstance, we would file a tax return with the appropriate tax authorities, and pay all taxes directly to the tax authority. We will be compensated for tax benefits generated by our company before tax deconsolidation and used by the Daisytek consolidated group. We will prepare and file all tax returns, and pay all income taxes due with respect to all tax returns required to be filed by us for all tax periods after we cease to be a member of the Daisytek consolidated, combined or unitary group.

Daisytek is responsible for most U.S. tax adjustments related to PFSweb for all periods or portions thereof ending on or before the effective date of the offering. In addition, we and Daisytek have agreed to cooperate in any tax audits, litigation or appeals that involve, directly or indirectly, periods prior to

the time that we cease to be a member of the Daisytek consolidated group. We and Daisytek have agreed to indemnify each other for tax liabilities resulting from the failure to cooperate in such audits, litigation or appeals, and for any tax liability resulting from the failure to maintain adequate records.

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

Transaction Management Services Agreement

We will enter into a transaction management services agreement with Daisytek which will set forth the transaction management services that we will provide for Daisytek in connection with its U.S. wholesale consumable supplies business. Under this agreement, we will provide a wide range of transaction management services, including order fulfillment and distribution, product warehousing, inbound call center services, product return administration and other services.

The agreement has an initial term of five years from the completion of this offering, although either party has the right to terminate the agreement at any time, without cause. If Daisytek terminates the agreement without cause, Daisytek must provide us with at least 180 days' prior notice and pay us a termination fee. The termination fee is based upon the net value of the assets being transferred to us by Daisytek which are primarily used in servicing the Daisytek business. The termination fee declines over the five year term of the agreement. If we terminate the agreement without cause, we must provide Daisytek with at least 365 days' prior notice and Daisytek does not have to pay any termination fee. In addition, if there is a change in control of Daisytek, we may terminate the agreement upon 90 days' prior notice and Daisytek does not have to pay the termination fee. During the term of this agreement, Daisytek will pay us service fees based upon a percent of shipped revenue. We and Daisytek have agreed that these fees are based upon certain assumptions regarding the nature, cost and scope of the services we will be providing under the agreement. If these assumptions should prove to be materially incorrect, we and Daisytek have agreed to negotiate in good faith an adjustment to the fees payable to us under the agreement.

During the term of the agreement, we have agreed not to engage, on our own behalf, in the business of selling or distributing, on a wholesale basis, any Daisytek products. This will not restrict us, however, from providing transaction management services to third parties who may be engaged in the business of selling or distributing, on a wholesale basis, the same or competing products.

As part of the restructuring of our arrangements with IBM, we have also entered into transaction management agreements with Daisytek to provide transaction management services, on a worldwide basis, in connection with their distribution of various IBM products. Under these agreements, we will

receive service fees based upon a variable percent of shipped revenue. These agreements are coterminous with our IBM agreements which, generally, have terms of one to two years, although IBM may terminate these agreements at any time.

Transition Services Agreement

Upon completion of this offering, we will enter into a transition services agreement with Daisytek. Under this agreement, Daisytek will provide us with various services relating to employee payroll and benefits, use of facilities, certain management information systems, insurance coverage and other administrative services. Daisytek will provide us with these services until the completion of the spin-off (the "Transition Period"), except that, with respect to any particular service, we may, upon notice to Daisytek, either terminate the Transition Period as of an earlier date or extend the Transition Period for up to one year from the completion of this offering.

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

Generally, we will pay Daisytek for these transition services an amount equal to the cost historically allocated by Daisytek to our business, adjusted to reflect any changes in the nature, cost or level of the services so provided. If we require Daisytek to provide us with any transition service after the expiration of the Transition Period, we will pay Daisytek the fair market value of these services.

Principal Stockholder

Prior to this offering, all of the outstanding shares of our common stock are owned by Daisytek. After this offering, Daisytek will own approximately 82.2% (or approximately 80.1% if the underwriters exercise their over-allotment option in full) of our outstanding common stock. Except for Daisytek, we are not aware of any person or group that will beneficially own more than 5% of the outstanding shares of our common stock following this offering. Daisytek's principal executive offices are located at 500 North Central Expressway, Plano, Texas 75074.

Description of Capital Stock

Under our Amended and Restated Certificate of Incorporation, our authorized capital stock consists of 41,000,000 shares, of which 40,000,000 shares are common stock, no par value per share, and 1,000,000 shares are preferred stock, par value $1.00 per share. Immediately following this offering, 17,405,000 shares of common stock, or 17,870,000 shares if the underwriters exercise their over-allotment option in full, will be outstanding. The following description of our capital stock is not

complete and is qualified in its entirety by our Amended and Restated Certificate of Incorporation and Bylaws, both of which are included as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

Holders of common stock will be entitled to one vote per share with respect to each matter presented to our stockholders on which the holders of common stock are entitled to vote. Except as may be provided in connection with any preferred stock in a certificate of designation filed pursuant to the Delaware General Corporation Law ("DGCL"), or as may otherwise be required by law or the Amended and Restated Certificate of Incorporation, the common stock will be the only capital stock of PFSweb entitled to vote in the election of directors and on all other matters presented to the stockholders of PFSweb; provided that holders of common stock, as such, will not be entitled to vote on any matter that solely relates to the terms of any outstanding series of preferred stock or the number of shares of such series and does not affect the number of authorized shares of preferred stock or the powers, privileges and rights pertaining to the common stock. The common stock will not have cumulative voting rights.

Subject to the prior rights of holders of preferred stock, if any, holders of common stock are entitled to receive such dividends as may be lawfully declared from time to time by the Board of Directors of PFSweb. Upon any liquidation, dissolution or winding up of PFSweb, whether voluntary or involuntary, holders of common stock will be entitled to receive such assets as are available for distribution to stockholders after there shall have been paid or set apart for payment the full amounts necessary to satisfy any preferential or participating rights to which the holders of each outstanding series of preferred stock are entitled by the express terms of such series.

The outstanding shares of our common stock are, and the shares of common stock being offered hereby will be, upon payment therefor, validly issued, fully paid and nonassessable. The common stock sold in this offering will not have any preemptive, subscription or conversion rights. Additional shares of authorized common stock may be issued, as determined by the PFSweb Board from time to time, without stockholder approval, except as may be required by applicable law or stock exchange requirements.

Preferred Stock

Our Board is empowered, without approval of the stockholders, to cause shares of preferred stock to be issued from time to time in one or more series, with the numbers of shares of each series and the designation, powers, privileges, preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof as fixed by our Board. Among the specific matters that may be determined by the Board are:

- the designation of each series;

- the number of shares of each series;

- the rate of dividends, if any;

- whether dividends, if any, shall be cumulative or non-cumulative;

- the terms of redemption, if any;

- the amount payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of PFSweb;

- rights and terms of conversion or exchange, if any;

- restrictions on the issuance of shares of the same series or any other series, if any; and - voting rights, if any.

Although no shares of preferred stock are currently outstanding and we have no current plans to issue preferred stock, the issuance of shares of preferred stock, or the issuance of rights to purchase such shares, could be used to discourage an unsolicited acquisition proposal. For example, a business combination could be impeded by the issuance of a series of preferred stock containing class voting rights that would enable the holder or holders of such series to block any such transaction. Alternatively, a business combination could be facilitated by the issuance of a series of preferred stock having sufficient voting rights to provide a required percentage vote of the stockholders. In addition, under certain circumstances, the issuance of preferred stock could adversely affect the voting power and other rights of the holders of the common stock. Although PFSweb's Board is required to make any determination to issue any such stock based on its judgment as to the best interests of the stockholders of PFSweb, it could act in a manner that would discourage an acquisition attempt or other transaction that some, or a majority, of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock over prevailing market prices of such stock. PFSweb's Board does not at present intend to seek stockholder approval prior to any issuance of currently authorized stock, unless otherwise required by law or applicable stock exchange requirements.

Limitation on Liability of Directors

Our Amended and Restated Certificate of Incorporation provides, as authorized by Section 102(b)(7) of the DGCL, that a director of PFSweb will not be personally liable to PFSweb or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability imposed by law (as in effect from time to time):

- for any breach of the director's duty of loyalty to PFSweb or its stockholders;

- for any act or omission not in good faith or which involved intentional misconduct or a knowing violation of law;

- for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or - for any transaction from which the director derived an improper personal benefit.

The inclusion of this provision in the Amended and Restated Certificate of Incorporation may have the effect of reducing the likelihood of derivative litigation against directors, and may discourage or deter stockholders or management from bringing a lawsuit against directors for breach of their duty of care, even though such an action, if successful, might otherwise have benefited PFSweb and its stockholders.

Section 203 of the Delaware General Corporation Law

PFSweb is a Delaware corporation and subject to Section 203 of the DGCL. Generally, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time such stockholder became an interested stockholder unless certain conditions are satisfied. Thus, it may make acquisition of control of our company more difficult. The prohibitions in Section 203 of the DGCL do not apply if:

- prior to the time the stockholder became an interested stockholder, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;

- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or - at or subsequent to the time the stockholder became an interested stockholder, the business combination is approved by the board of directors and authorized by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Under Section 203 of the DGCL, a "business combination" includes:

- any merger or consolidation of the corporation with the interested stockholder;

- any sale, lease, exchange or other disposition, except proportionately as a stockholder of such corporation, to or with the interested stockholder of assets of the corporation having an aggregate market value equal to 10% or more of either the aggregate market value of all the assets of the corporation or the aggregate market value of all the outstanding stock of the corporation;

- certain transactions resulting in the issuance or transfer by the corporation of stock of the corporation to the interested stockholder;

- certain transactions involving the corporation which have the effect of increasing the proportionate share of the stock of any class or series of the corporation which is owned by the interested stockholder; or - certain transactions in which the interested stockholder receives financial benefits provided by the corporation.

Under Section 203 of the DGCL, an "interested stockholder" generally is:

- any person that owns 15% or more of the outstanding voting stock of the corporation;

- any person that is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period prior to the date on which it is sought to be determined whether such person is an interested stockholder; and - the affiliates or associates of any such person.

Because Daisytek owned more than 15% of our voting stock before we became a public company in this offering, Section 203 of the DGCL by its terms is currently not applicable to business combinations with us even though Daisytek owns 15% or more of our outstanding stock. If any other person acquires 15% or more of our outstanding stock, such person will be subject to the provisions of Section 203 of the DGCL.

Certain Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws

Our Bylaws contain provisions requiring that advance notice be delivered to PFSweb of any business to be brought by a stockholder before an annual or special meeting of stockholders and providing for certain procedures to be followed by stockholders in nominating persons for election to the PFSweb Board. Generally, only such business may be conducted at a special meeting of stockholders as is set forth in the notice for such meeting.

Our Bylaws provide that except as may be provided in connection with the issuance of any series of preferred stock, the number of directors shall be fixed from time to time pursuant to a 67 resolution adopted by our Board of Directors. PFSweb's Amended and Restated Certificate of Incorporation provides for a classified Board of Directors, consisting of three classes as nearly equal in size as practicable. Each class holds office until the third annual stockholders' meeting for election of directors following the most recent election of such class, except that the initial terms of the three classes expire in 2000, 2001 and 2002, respectively.

Listing

Application will be made for quotation of our common stock on the Nasdaq National Market under the symbol "PFSW."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is ChaseMellon Shareholder Services, LLC. Its address is 85 Challenger Road, Ridgefield Park, New Jersey 07660.

Shares Eligible for Future Sale

General

The 3,100,000 shares of our common stock sold in this offering, or 3,565,000 shares if the underwriters exercise their over-allotment option in full, will be freely tradable without restriction under the Securities Act, except for any such shares which may be acquired by an "affiliate" of PFSweb (an "Affiliate") as that term is defined in Rule 144 promulgated under the Securities Act, which shares will remain subject to the resale limitations of Rule 144.

The 14,305,000 shares of our common stock that will continue to be held by Daisytek after this offering constitute "restricted securities" within the meaning of Rule 144, and will be eligible for sale by Daisytek in the open market after this offering, subject to certain contractual lockup provisions and the applicable requirements of Rule 144, both of which are described below. PFSweb has granted certain registration rights to Daisytek. See "-- Registration Rights."

Generally, Rule 144 provides that a person who has beneficially owned "restricted" shares for at least one year will be entitled to sell on the open market in brokers' transactions within any three month period a number of shares that does not exceed the greater of:

- 1% of the then outstanding shares of common stock; and - the average weekly trading volume in the common stock on the open market during the four calendar weeks preceding such sale.

Sales under Rule 144 are also subject to certain post-sale notice requirements and the availability of current public information about PFSweb.

In the event that any person other than Daisytek who is deemed to be an Affiliate purchases shares of our common stock pursuant to this offering or acquires shares of our common stock pursuant to an employee benefit plan of PFSweb, the shares held by such person are required under Rule 144 to be sold in brokers' transactions, subject to the volume limitations described above. Shares properly sold in reliance upon Rule 144 to persons who are not Affiliates are thereafter freely tradable without restriction.

Sales of substantial amounts of our common stock in the open market, or the availability of such shares for sale, could adversely affect the price of our common stock. Daisytek has announced that it plans to complete its spin-off of PFSweb by distributing all of the shares of PFSweb common stock that it owns to the holders of Daisytek's common stock. Any shares distributed by Daisytek will be eligible for immediate resale in the public market without restrictions by persons other than Affiliates of PFSweb. Affiliates of PFSweb would be subject to the restrictions of Rule 144 described above other than the one-year holding period requirement.

Each of PFSweb, Daisytek and the directors and executive officers of PFSweb and Daisytek have agreed that, without the prior written consent of Hambrecht & Quist on behalf of the underwriters, they will not, during the period ending 180 days after the date of this prospectus, sell or otherwise

dispose of any shares of our common stock, subject to certain exceptions. The spin-off is specifically not exempted from this agreement. See "Underwriters."

An aggregate of 6,000,000 shares of our common stock are reserved for issuance under our stock option plans. We intend to file a registration statement on Form S-8 covering the issuance of shares of our common stock pursuant to these plans. Accordingly, the shares issued pursuant to these stock option plans will be freely tradable, subject to the restrictions on resale by Affiliates under Rule 144.

Registration Rights of Daisytek

Pursuant to the Registration Rights Agreement we will enter into with Daisytek, at any time after Daisytek informs us that it no longer intends to complete the spin-off or that the spin-off was completed without Daisytek divesting itself of 100% of our common stock that it held, Daisytek may require us to register under the Securities Act all or any portion of our common stock that it holds. Any of Daisytek's shares of our common stock registered pursuant to the Registration Rights Agreement would be eligible for immediate resale in the public market without restrictions by persons other than Affiliates of PFSweb. For more information regarding the Registration Rights Agreement, see "Registration Rights Agreement."

Any sales of substantial amounts of our common stock in the public market, or the perception that such sales might occur (whether as a result of the spin-off, Daisytek's registration rights or otherwise), could have a material adverse effect on the market price of our common stock. See "Risk Factors."

Underwriting

PFSweb has entered into an underwriting agreement with the underwriters named below. Hambrecht & Quist LLC, Dain Rauscher Wessels, a division of Dain Rauscher Incorporated, William Blair & Company, LLC and Jefferies & Company, Inc. are acting as representatives of the underwriters.

The underwriting agreement provides for the purchase of a specific number of shares of common stock by each of the underwriters. The underwriters' obligations are several, which means that each underwriter is required to purchase a specified number of shares, but is not responsible for the commitment of any other underwriter to purchase shares. Subject to the terms and conditions of the underwriting agreement, each underwriter has severally agreed to purchase the number of shares of common stock set forth opposite its name below.

Number Underwriters of Shares

Hambrecht & Quist LLC..... Dain Rauscher Wessels..... William Blair & Company, LLC..... Jefferies & Company, Inc. ..... Total.....

This is a firm commitment underwriting. This means that the underwriters have agreed to purchase all of the shares offered by this prospectus, other than those covered by the over-allotment option described below, if any are purchased. Under the underwriting agreement, if an underwriter defaults in its commitment to purchase shares, the commitments of non-defaulting underwriters may be increased or the underwriting agreement may be terminated, depending on the circumstances.

The representatives have advised PFSweb that the underwriters propose to offer the shares directly to the public at the public offering price that appears on the cover page of this prospectus. In addition, the representatives may offer some of the shares to certain securities dealers at such price less a concession of $ per share. The underwriters may also allow to dealers, and such dealers may reallow, a concession not in excess of $ per share to certain other dealers. After the shares are released for sale to the public, the representatives may change the offering price and other selling terms at various times.

The underwriters have informed PFSweb that the underwriters do not intend to confirm discretionary sales of the shares of common stock offered by this prospectus.

PFSweb has granted the underwriters an over-allotment option. This option, which is exercisable for up to 30 days after the date of this prospectus, permits the underwriters to purchase a maximum of 465,000 additional shares from PFSweb to cover over-allotments. If the underwriters exercise all or part of this option, they will purchase shares covered by the option at the public offering price that appears on the cover page of this prospectus, less the underwriting discount. If this option is exercised in full, the total price to public will be $46.3 million and the net proceeds to PFSweb will be approximately $41.1 million. The underwriters have severally agreed that, to the extent the over-allotment option is exercised, they will each purchase a number of additional shares proportionate to the underwriter's initial amount reflected in the above table.

The following table provides information regarding the amount of the discount to be paid to the underwriters by PFSweb. Such amount is shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

Paid by Pfsweb No Exercise Full Exercise

Per Share	$	$
Total	$	$

PFSweb estimates that the total expenses of the offering, excluding the underwriting discount, will be approximately $.

PFSweb and Daisytek have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make for certain liabilities.

PFSweb, its executive officers and directors, and Daisytek have agreed to a 180-day lock up with respect to 14,305,000 shares of common stock that they beneficially own, including securities that are convertible into shares of common stock and securities that are exchangeable or exercisable for shares

of common stock. This means that, subject to certain exceptions, for a period of 180 days following the date of this prospectus, PFSweb, Daisytek and such persons may not offer, sell, pledge or otherwise dispose of PFSweb securities without the prior written consent of Hambrecht & Quist.

The underwriters have reserved for sale up to shares for employees, directors and certain other persons associated with PFSweb. These reserved shares will be sold at the public offering price that appears on the cover of this prospectus. The number of shares available for sale to the general public in the offering will be reduced to the extent reserved shares are purchased by these persons. The underwriters will offer to the general public, on the same terms as other shares offered by this prospectus, any reserved shares that are not purchased by these persons.

Prior to this offering, there has been no public market for the common stock. Consequently, the offering price for the common stock has been determined by negotiations between PFSweb and the underwriters and is not necessarily related to PFSweb's asset value, net worth or other established criteria of value. The factors considered in such negotiations, in addition to prevailing market conditions, included the history of and prospects for the industry in which PFSweb competes, an assessment of PFSweb's management, PFSweb's prospects, its capital structure, prevailing market conditions, its results of operations in recent periods and certain other factors as were deemed relevant.

Rules of the SEC may limit the ability of the underwriters to bid for or purchase shares before the distribution of the shares is completed. However, the underwriters may engage in the following activities in accordance with the rules:

- Stabilizing transactions. The representatives may make bids or purchases for the purpose of pegging, fixing or maintaining the price of the shares, so long as stabilizing bids do not exceed a specified maximum.

- Over-allotments and syndicate covering transactions. The underwriters may create a short position in the shares by selling more shares than are set forth on the cover page of this prospectus. If a short position is created in connection with the offering, the representatives may engage in syndicate covering transactions by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the over-allotment option.

- Penalty bids. If the representatives purchase shares in the open market in a stabilizing transaction or syndicate covering transaction, they may reclaim a selling concession from the underwriters and selling group members who sold those shares as part of this offering.

Stabilization and syndicate covering transactions may cause the price of the shares to be higher than it would be in the absence of such transactions. The imposition of a penalty bid might also have an effect on the price of the shares if it discourages resales of the shares.

Neither PFSweb nor the underwriters makes any representation or prediction as to the effect that the transactions described above may have on the price of the shares. These transactions may occur on the Nasdaq National Market or otherwise. If such transactions are commenced, they may be discontinued without notice at any time.

Timothy M. Murray, a director of PFSweb, is a Principal of William Blair & Company, LLC.

Legal Matters

The validity of the common stock offered hereby will be passed upon for PFSweb by Wolff & Samson P.A., Roseland, New Jersey. Legal matters in connection with this offering will be passed upon for the underwriters by Gibson, Dunn & Crutcher LLP, New York, New York.

Experts

The financial statements and schedule included in this prospectus and elsewhere in the registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

Where You Can Find More Information

We have filed with the Securities and Exchange Commission, Washington, D.C. 20549, a Registration Statement on Form S-1 under the Securities Act of 1933, as amended, with respect to the Common Stock offered hereby. This prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Items are omitted in accordance with the rules and regulations of the Commission. For further information with respect to PFSweb and our common stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed as a part thereof. Statements contained in this prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and, in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference to such exhibit. The Registration Statement, including exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at the North Western Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, NY 10048, and copies of all or any part thereof may be obtained from such office after payment of fees prescribed by the Commission. The Commission maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

As a result of this offering, we will become subject to the full informational requirements of the Securities Exchange Act of 1934, as amended. We will fulfill our obligations with respect to such requirements by filing periodic reports and other information with the SEC. We intend to furnish our shareholders with annual reports containing consolidated financial statements certified by an

independent public accounting firm. We also maintain an Internet site at http://www.pfsweb.com. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

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Report of Independent Public Accountants

To Daisytek International Corporation and PFSweb, Inc.:

We have audited the accompanying combined balance sheets of PFSweb (representing the business operations of certain subsidiaries of Daisytek International Corporation -- see Note 1) as of March 31, 1999 and 1998, and the related combined statements of operations, shareholder's equity and cash flows for each of the three years in the period ended March 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PFSweb as of March 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 1999, in conformity with generally

accepted accounting principles.

Arthur Andersen Llp

Dallas, Texas, September 22, 1999

Pfsweb

Combined Balance Sheets (In Thousands)

Assets

March 31, 1998 1999

CURRENT ASSETS:		
Cash	$ 113	$ 587
Accounts receivable, net of allowance for doubtful accounts of $318 and $635 at March 31, 1998 and 1999, respectively	8,946	22,190
Inventories, net	11,263	29,856
Prepaid expenses and other current assets	--	997
Deferred tax asset	261	453
Total current assets	20,583	54,083
PROPERTY AND EQUIPMENT, at cost:		
Furniture, fixtures and equipment	393	3,009
Leasehold improvements	2	32
	395	3,041
Less -- Accumulated depreciation and amortization	(67)	(330)
Net property and equipment	328	2,711
OTHER ASSETS	--	12,263
Total assets	$20,911	$69,057
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$18,725	$38,329
Accrued expenses	514	1,118
Total current liabilities	19,239	39,447
PAYABLE TO DAISYTEK	1,780	28,889
COMMITMENTS AND CONTINGENCIES (Notes 4 and 8)		
SHAREHOLDER'S EQUITY:		
Daisytek's net equity investment	(53)	852
Accumulated other comprehensive loss	(55)	(131)
Total shareholder's equity	(108)	721
Total liabilities and shareholder's equity	$20,911	$69,057

The accompanying notes are an integral part of these combined statements.

Pfsweb

Combined Statements of Operations (In Thousands, Except Per Share Data)

Fiscal Years Ended March 31, 1997 1998 1999

REVENUES:			
Product revenue	$16,543	$45,804	$ 93,702
Service fee revenue	1,034	3,539	7,547
Total revenues	17,577	49,343	101,249
COSTS OF REVENUES:			
Cost of product revenue	15,768	43,392	88,335
Cost of service fee revenue	596	2,208	5,323
Total costs of revenues	16,364	45,600	93,658
Gross profit	1,213	3,743	7,591
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,058	3,645	6,559
Income from operations	155	98	1,032
INTEREST EXPENSE, net	77	143	374
Income (loss) before income taxes	78	(45)	658
PROVISION (BENEFIT) FOR INCOME TAXES	44	(7)	273
NET INCOME (LOSS)	$ 34	$ (38)	$ 385
NET INCOME (LOSS) PER SHARE:			
Basic and diluted	$ 0.00	$ (0.00)	$ 0.03
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:			
Basic and diluted	14,305	14,305	14,305

The accompanying notes are an integral part of these combined statements.

Pfsweb

Combined Statements of Shareholder's Equity (In Thousands)

	DAISYTEK'S NET EQUITY INVESTMENT	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL SHAREHOLDER'S EQUITY	COMPREHENSIVE INCOME (LOSS)
BALANCE, March 31, 1996	$(49)	$ --	$ (49)	
Net income	34	--	34	$ 34
Other comprehensive income -- foreign currency translation adjustment	--	17	17	17
Comprehensive income				$ 51
BALANCE, March 31, 1997	(15)	17	2	
Net loss	(38)	--	(38)	$ (38)
Other comprehensive loss -- foreign currency translation adjustment	--	(72)	(72)	(72)
Comprehensive loss				$(110)
BALANCE, March 31, 1998	(53)	(55)	(108)	
Net income	385	--	385	$ 385
Contributed capital	520	--	520	

Other comprehensive loss -- foreign currency translation adjustment	--	(76)	(76)	(76)
Comprehensive income				$ 309
BALANCE, March 31, 1999	$852	$(131)	$ 721	

The accompanying notes are an integral part of these combined statements.

Pfsweb

Combined Statements of Cash Flows (In Thousands)

Fiscal Years Ended March 31, 1997 1998 1999

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 34	$ (38)	$ 385
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3	63	275
Provision for doubtful accounts	122	299	344
Deferred income tax benefit	(41)	(222)	(192)
Changes in operating assets and liabilities:			
Accounts receivable	(5,138)	(3,622)	(13,561)
Inventories, net	(9,856)	(1,393)	(18,556)
Prepaid expenses and other current assets	--	--	(993)
Trade accounts payable and accrued expenses	9,743	9,471	20,185
Net cash provided by (used in) operating activities	(5,133)	4,558	(12,113)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(100)	(294)	(2,656)
Increase in other assets	--	--	(12,264)
Net cash used in investing activities	(100)	(294)	(14,920)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Capital contribution	--	--	520
Increase (decrease) in payable to Daisytek	5,222	(4,072)	27,109
Net cash provided by (used in) financing activities	5,222	(4,072)	27,629
EFFECT OF EXCHANGE RATES ON CASH	15	(83)	(122)
NET INCREASE IN CASH	4	109	474
CASH, beginning of period	--	4	113
CASH, end of period	$ 4	$ 113	$ 587

The accompanying notes are an integral part of these combined statements.

Pfsweb

Notes to Combined Financial Statements

1. Overview and Basis of Presentation:

PFSweb (the "Company") reflects the business operations of certain wholly-owned subsidiaries of Daisytek International Corporation ("Daisytek"). PFSweb's business unit was formed in 1991 and expanded in 1996 under the name "Priority Fulfillment Services." The Company is currently wholly-owned by Daisytek. Accordingly, Daisytek exerts substantial influence over, and has the ability to direct all operations of, the Company. The Company is an international provider of transaction management services to both traditional and e-commerce companies and sells products and services primarily in the United States, Canada and Europe. The Company offers such services as order management, customer care, billing, credit management and collection, information management, and distribution. The Company provides its services under fee-based contracts (where service fee revenue is based on either the sales value of the products or service activity volume) and under master distributor agreements (where the Company takes title to and resells the product).

In June 1999, Daisytek created a separate wholly-owned subsidiary named PFSweb, Inc., a Delaware corporation, to become a holding Company for PFSweb upon completion of an initial public offering (the "Offering"). Daisytek has contributed $20,000 for 14,305,000 shares of PFSweb, Inc. Simultaneous with the effective date of this Offering, the assets, liabilities and equity which currently comprise PFSweb will be contributed to PFSweb, Inc. No separate financial statements of PFSweb, Inc. have been provided because it is a holding company and they only reflect cash and equity of $20,000.

Daisytek plans to divest PFSweb, Inc. in two stages. The first stage involves the sale and issuance of common stock of PFSweb, Inc. in this Offering. The second stage, planned to occur in the year 2000, involves Daisytek distributing to holders of its common stock all of its interest in PFSweb, Inc. through a spin-off transaction in which the shares of PFSweb, Inc. would be distributed to Daisytek common stockholders on a pro-rata basis. Daisytek, however, is not obligated to effect the spin-off through the distribution of its interest and the Company cannot provide assurance as to whether or when it will occur.

The accompanying combined financial statements are presented on a carve-out basis and reflect the combined historical results of operations, financial position and cash flows of the Company. For all periods presented, certain expenses reflected in the combined financial statements include an allocation of certain Daisytek corporate expenses and infrastructure costs (see Note 6). Management believes that the method used to allocate expenses is reasonable, although the cost of services could be higher if obtained from other sources. In addition, certain service fee revenue and cost of service fee revenue have been reflected by PFSweb for services subcontracted to PFSweb by Daisytek. The service fee revenue, cost of service fee revenue and allocated expenses have been reflected on bases that

Daisytek and PFSweb consider to be a reasonable reflection of the services provided and revenue earned by PFSweb and the utilization of services provided by Daisytek and the benefit received by PFSweb. However, an allocation of the salaries and benefits of Daisytek corporate executives have not been allocated or reflected in the combined financial statements of PFSweb because management believes that the services provided by these executives were related to corporate level activities. The financial information included herein may not reflect the combined financial position, operating results, changes in Daisytek's net investment and cash flows of PFSweb in the future or what it would have been had PFSweb been a separate, stand- alone entity during the periods presented.

Pfsweb

Notes to Combined Financial Statements -- (Continued)

2. Significant Accounting Policies:

Principles of Combination

The combined financial statements include the accounts and the historical results of operations and cash flows of PFSweb during each respective period. All significant PFSweb intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The allocation of certain expenses (see Notes 1 and 6) in these financial statements required management estimates and assumptions. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes product revenue upon shipment of product to customers and provides for estimated returns and allowances. The Company's service fee revenues are recognized at the time the service is provided to its client. Certain contracts involve third-party vendors who provide services such as package delivery. The costs incurred by the Company related to such third-party services are typically passed on to clients and are generally not reflected in revenue or expense.

Costs of Revenues

The Company recognizes cost of product revenue upon shipment of product to customers. The Company's cost of service fee revenue is recognized as incurred and represents costs incurred to provide services under fee-based contracts, including salaries, shipping, supplies, and facility costs.

Concentration of Business and Credit Risk

All of the Company's product revenue for the fiscal years ended March 31, 1997, 1998 and 1999, was generated by sales of product purchased under master distributor agreements with one supplier. Sales to Daisytek accounted for approximately 44%, 22% and 13% of the Company's revenue for the fiscal years ended March 31, 1997, 1998 and 1999, respectively. No other client accounted for 10% or more of the Company's revenue during such periods. As of March 31, 1998 and 1999, one customer accounted for approximately 39% and 23% of accounts receivable, respectively.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable include outstanding trade accounts receivables as well as certain unbilled amounts owed to PFSweb by clients in accordance with contracts. The amount of unbilled receivables at March 31, 1998 and 1999 was approximately $726,000 and $2,709,000, respectively.

Pfsweb

Notes to Combined Financial Statements -- (Continued)

Inventories

Inventories (merchandise held for resale, all of which are finished goods) are stated at the lower of weighted average cost or market.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the respective assets which range from three to ten years.

The Company periodically evaluates whether events or circumstances have occurred that indicate that long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, the Company assesses the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows. In the event the sum of the expected undiscounted future cash flows resulting from the use of the asset is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. To date, no such impairment has been recognized.

Other Assets

Other assets includes approximately $12.1 million related to a non-current receivable from a client of the Company. During fiscal 1999, the Company entered into a long-term contractual agreement whereby the Company finances certain inventory owned by the client. The Company warehouses this client inventory and distributes it upon the sale to third parties by the client, who controls the disposition of this inventory. The Company has the contractual right to collect the receivable in full at the conclusion of the contract. In addition to service fees, the Company charges the client an asset management fee, a portion of which results in interest income.

Foreign Currency Translation and Transactions

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

For the Company's European operations, the U.S. dollar is the functional currency. Monetary assets and liabilities are translated at the rates of exchange on the balance sheet date and certain assets (notably inventory, and property and equipment) are translated at historical rates. Income and expense items are translated at average rates of exchange for the period except for those items of expense, which relate to assets, which are translated at historical rates. The gains and losses from foreign currency transactions and translation related to these subsidiaries are included in net income and have not been material.

Income Taxes

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 "Accounting for Income Taxes", deferred taxes reflect the impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. These differences relate primarily to provisions for doubtful accounts, reserves for inventory, book versus tax depreciation differences, and certain accrued expenses deducted for book purposes but not yet deductible for tax purposes. (See Note 7.)

Pfsweb

Notes to Combined Financial Statements -- (Continued)

Fair Value of Financial Instruments

The Company estimates fair value based on market information and appropriate valuation methodologies. Fair value is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The fair values of all financial instruments approximate their carrying amounts in the accompanying combined balance sheets.

Net Income (Loss) Per Common Share

The Company computed net income (loss) per share in accordance with SFAS No. 128 "Earnings Per Share." Basic and diluted net income (loss) per share attributable to PFSweb was determined based on net income (loss) divided by the 14,305,000 shares of PFSweb, Inc. (see Note 1) outstanding prior to this Offering. For purposes of the net income (loss) per share calculation, the shares outstanding prior to this Offering are treated as outstanding for all periods presented. There were no potentially dilutive securities outstanding of PFSweb, Inc. during the periods presented.

Adoption of New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires that an entity recognize all derivative financial instruments as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be used to hedge certain types of transactions, including foreign currency exposures of a net investment in a

foreign operation. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, with initial application as of the beginning of an entity's fiscal quarter. SFAS No. 133 is not expected to have a significant effect on the financial condition or operations of the Company.

Cash Paid During Year

The Company made payments for interest of approximately $16,000, $0, and $0, and income taxes of approximately $0, $139,000, $269,000 during the fiscal years ended March 31, 1997, 1998 and 1999, respectively (see Notes 3 and 7). Unpaid taxes payable and intercompany accrued interest are included in the payable to Daisytek.

3. Payable to Daisytek:

Funds advanced by Daisytek to fund the Company's working capital requirements and certain investment activities have been reflected as an intercompany payable. This intercompany payable will be repaid by the Company upon the closing of the Offering. Interest expense charged by Daisytek was based on its weighted average interest rates of 6.1%, 6.9%, and 6.7% and approximated $279,000, $497,000, and $1,039,000 for the fiscal years ended March 31, 1997, 1998 and 1999, respectively.

Daisytek is not required to provide PFSweb with funding in the future and PFSweb will be restricted from borrowing from Daisytek following the spin-off.

Pfsweb

Notes to Combined Financial Statements -- (Continued)

4. Guarantee of Daisytek Debt

PFSweb, along with several other Daisytek subsidiaries, has guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). As of March 31, 1999, Daisytek had borrowed $29.8 million and has a maximum borrowing availability of $85.0 million under the Facility, leaving approximately $55.2 million available under the Facility. The Facility, and PFSweb's guarantee thereon, expires on December 31, 2000.

5. Stock Options:

Certain of the Company's employees, and individuals that are expected to become Company employees upon this Offering and/or spin-off transaction described in Note 1, have been granted Daisytek stock options under Daisytek's stock option compensation plans (the "Plans"). The purpose of

the Plans is to benefit and advance the interests of Daisytek by rewarding officers and certain key employees for their contributions to the financial success of Daisytek and thereby motivating them to continue to make such contributions in the future. The Plans provide for fixed grants of both incentive stock options and nonqualified stock options. The stock options generally vest over a three to five year period from the date of grant and expire 10 years after the date of grant.

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of SFAS 123, the Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for the Plans and accordingly, does not recognize compensation expense for its stock option plans because Daisytek typically does not issue options at exercise prices below the market value at date of grant. Had compensation expense for Daisytek's stock option plans applicable to the Company's employees been determined based upon the fair value at the grant date for awards consistent with the methodology prescribed by SFAS 123, the Company's combined pretax income would have decreased by $943,000, $787,000 and $2,531,000 in fiscal years ended March 31, 1997, 1998 and 1999, respectively. These pro forma effects may not be representative of expense in future periods since the estimated fair value of stock options on the date of grant is amortized to expense over the vesting period. Additional options may be granted in future years. Options issued prior to April 1, 1995 were excluded from the computation.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in fiscal year 1997: no dividends, expected volatility ranging between 39.25% and 39.50%; risk-free interest rate ranging between 5.9% and 6.6%; and expected life of 6 years. The following assumptions were used for grants during the fiscal year 1998: no dividends, expected volatility ranging between 40.97% and 41.40%; risk-free interest rate ranging between 5.6% and 6.8%; and expected life of 6 years. The following assumptions were used for grants during the fiscal year 1999: no dividends, expected volatility ranging between 41.42% and 47.92%; risk-free interest rate ranging between 4.6% and 5.5%; and expected life of 6 years.

Pfsweb

Notes to Combined Financial Statements -- (Continued)

The following table summarizes stock option activity under various Daisytek plans as it relates to PFSweb employees:

Weighted Average Shares Price Per Share Exercise Price

Outstanding, March 31, 1996	561,470	$ 0.64 - $ 9.75	$ 4.88
Granted	275,266	$15.50 - $16.25	$16.11
Exercised	(34,052)	$ 2.65 - $ 9.75	$ 5.16
Canceled	--	$ -- - $ --	$ --
Outstanding, March 31, 1997	802,684	$ 0.64 - $16.25	$ 8.72

Granted	570,370	$12.50 - $19.63	$12.87
Exercised	(252,436)	$ 0.64 - $ 9.75	$ 2.47
Canceled	(296,442)	$ 9.75 - $16.25	$15.80
Outstanding, March 31, 1998	824,176	$ 0.64 - $19.63	$10.96
Granted	1,807,886	$12.88 - $22.88	$15.13
Exercised	(108,832)	$ 0.64 - $12.50	$ 3.41
Canceled	(146,739)	$ 9.75 - $22.88	$16.05
Outstanding, March 31, 1999	2,376,491	$ 2.65 - $22.88	$14.16

The weighted average fair values of options granted during each of the years ended March 31, 1997, 1998 and 1999, were $8.03, $7.05 and $7.68, respectively. As of March 31, 1997, 1998 and 1999, 358,982, 183,956 and 243,747, respectively, of options outstanding were exercisable. The weighted average exercise price of exercisable options outstanding at March 31, 1997, 1998 and 1999, were $2.56, $5.74 and $10.44, respectively. The remaining options will become exercisable over the next three to five years based on vesting percentages.

The following table summarizes information concerning currently outstanding and exercisable Daisytek stock options issued to PFSweb employees at March 31, 1999:

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	OUTSTANDING AS OF MARCH 31, 1999	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	EXERCISABLE AS OF MARCH 31, 1999	WEIGHTED AVERAGE EXERCISE PRICE
$ 2.65	5,613	3.0	$ 2.65	5,613	$ 2.65
$ 9.75 - $14.06	1,963,631	8.7	$12.52	237,884	$10.62
$15.50 - $22.88	407,247	9.3	$22.22	250	$16.25

6. Transactions with Daisytek and Other Related Parties:

The Company's product revenue from sales to Daisytek was $7.5 million, $10.7 million, and $12.4 million in 1997, 1998, and 1999, respectively.

The Company's costs and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis.

Notes to Combined Financial Statements -- (Continued)

In addition, included in the combined financial statements are service fee revenue and cost of service fee revenue which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements. Service fee revenue applicable to these contracts were $230,000, $467,000 and $804,000 in 1997, 1998, and 1999, respectively.

In May 1999, the Company entered into an agreement to provide services to a certain company. An executive officer and a director of PFSweb serve on the Board of Directors of this company.

7. Income Taxes:

The Company's operations have been included in consolidated income tax returns filed by Daisytek. If Daisytek or other members of the consolidated group fail to make tax payments required by law, PFSweb would be liable for any shortfall. The provision for income taxes reflected in the combined statements of operations and the deferred tax assets reflected in the combined balance sheets have been prepared as computed on a separate return basis. The current income tax liabilities for the periods presented have been included in the payable to Daisytek.

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

FISCAL YEARS ENDED MARCH 31, 1997 1998 1999

Provision (benefit) computed at statutory rate.....	$27	$(15)	$224
Impact of foreign taxation at different rate.....	1	6	16
State income taxes, net of federal tax impact.....	6	(2)	26
Expenses not deductible for tax purposes.....	8	5	11
Other.....	2	(1)	(4)
Provision (benefit) for income taxes.....	$44	$ (7)	$273

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

FISCAL YEARS ENDED MARCH 31, 1997 1998 1999

Domestic.....	$ 67	$(95)	$407
Foreign.....	11	50	251]
Total.....	$ 78	$(45)	$658

Pfsweb

Notes to Combined Financial Statements -- (Continued)

The provision (benefit) for income taxes is summarized as follows (in thousands):

FISCAL YEARS ENDED MARCH 31, 1997 1998 1999

Current			
Domestic	$ 64	$ 180	$ 321
State	8	12	39
Foreign	13	23	105
Total current	85	215	465
Deferred			
Domestic	(41)	(208)	(175)
State	--	(14)	(17)
Total deferred	(41)	(222)	(192)
Total	$ 44	$ (7)	$ 273

The components of the deferred tax asset (liability) as of March 31, 1998 and 1999 are as follows (in thousands):

March 31, 1998 1999

Deferred tax asset:		
Allowance for doubtful accounts	$119	$244
Inventory	49	70
Other	95	177
Total deferred tax asset	263	491
Deferred tax liability:		
Property and equipment	(2)	(38)
Total deferred liability	(2)	(38)
Deferred tax asset, net	$261	$453

8. Commitments and Contingencies:

The Company leases facilities, and warehouse, office, transportation and other equipment under operating leases expiring in various years through fiscal year 2009. In most cases, management expects that, in the normal course of business, leases will be renewed or replaced by other leases. Minimum future annual rental payments under non-cancelable operating leases having original terms in excess of one year are as follows (in thousands):

2000	$ 1,254
2001	1,896
2002	1,896
2003	1,896
2004	1,846
Thereafter	2,250
Total	$11,038

Total rental expense under operating leases approximated $38,000, $357,000 and $805,000 for the fiscal years ended March 31, 1997, 1998 and 1999, respectively. As discussed in Note 10, the Company expects to enter into a master separation agreement with Daisytek upon the successful completion of this Offering which will result in additional operating lease obligations.

Pfsweb

Notes to Combined Financial Statements -- (Continued)

The Company is involved in certain litigation arising in the ordinary course of business. Management believes that such litigation will be resolved without material effect on the Company's financial position or results of operations.

9. Segment and Geographic Information:

The Company operates one reportable segment as an international provider of transaction management services to both traditional and e-commerce companies. Geographic areas in which the Company operates include the United States, Europe (Belgium, Germany and The Netherlands) and Canada.

The following is geographic information by area. Transfers between geographic areas were immaterial.

Year Ended or at March 31 1997 1998 1999

Revenues:			
United States	$16,540	$45,729	$ 85,746
Europe	--	--	10,456
Canada	1,037	3,614	5,047
	$17,577	$49,343	$101,249
Long-lived assets:			
United States		$ 318	$ 14,449
Europe		--	373
Canada		10	152
		$ 328	$ 14,974

10. Subsequent Events:

On August 31, 1999, the Company entered into a lease for an approximately 442,000 square foot distribution facility in Memphis, Tennessee. The five year lease, with monthly lease payments totaling $109,000, expires on August 31, 2004 and contains a renewal option for four years.

PFSweb, Inc. has authorized 6,000,000 shares of common stock for issuance under its 1999 stock option plans (the "Option Plans"). The Option Plans, which are currently administered by the Compensation Committee of the Board of Directors of PFSweb, Inc., provide for the granting of

incentive awards in the form of stock options to directors, executive management, key employees, and outside consultants of PFSweb, Inc. and its subsidiaries. The right to purchase shares under the stock option agreements typically vest over a three year period. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued at fair market value. In July 1999, PFSweb, Inc. issued options to purchase 1,344,250 common shares at $10.45. In August 1999, PFSweb, Inc. issued options to purchase 32,250 common shares at $13.00. All of these options are subject to a three year vesting schedule, under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off of PFSweb, Inc. from Daisytek.

On September 21, 1999, Daisytek announced its plans to file this Offering. In conjunction with the successful completion of this Offering, PFSweb, Inc. has stated its intention to enter into agreements with Daisytek, including a tax sharing agreement, a transaction management services agreement, transition services agreement and a master separation agreement which are expected to have a significant impact on the financial position and results of operations of PFSweb, Inc.

Pfsweb

Interim Condensed Combined Balance Sheets (In Thousands)

Assets

	MARCH 31, 1999	JUNE 30, 1999 (UNAUDITED)
CURRENT ASSETS:		
Cash	$ 587	$ 2,408
Accounts receivable, net of allowance for doubtful accounts of $635 and $638 at March 31, 1999 and June 30, 1999, respectively	22,190	22,729
Inventories, net	29,856	24,568
Prepaid expenses and other current assets	997	846
Deferred tax asset	453	420
Total current assets	54,083	50,971
PROPERTY AND EQUIPMENT, at cost:		
Furniture, fixtures and equipment	3,009	4,977
Leasehold improvements	32	121
	3,041	5,098
Less -- Accumulated depreciation and amortization	(330)	(516)
Net property and equipment	2,711	4,582
OTHER ASSETS	12,263	12,414
Total assets	$69,057	$67,967

Liabilities and Shareholder's Equity

CURRENT LIABILITIES:		
Trade accounts payable	$38,329	$29,403
Accrued expenses	1,118	749
Total current liabilities	39,447	30,152

PAYABLE TO DAISYTEK	28,889	37,349
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDER'S EQUITY:		
Daisytek's net equity investment	852	654
Accumulated other comprehensive loss	(131)	(188)
Total shareholder's equity	721	466
Total liabilities and shareholder's equity	$69,057	$67,967

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

Pfsweb

INTERIM CONDENSED COMBINED STATEMENTS OF OPERATIONS (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA) THREE MONTHS ENDED JUNE 30, 1998 1999

REVENUES:		
Product revenue	$20,424	$32,620
Service fee revenue	1,004	3,191
Total revenues	21,428	35,811
COSTS OF REVENUES:		
Cost of product revenue	19,345	30,793
Cost of service fee revenue	834	2,231
Total costs of revenues	20,179	33,024
Gross profit	1,249	2,787
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,154	2,788
Income (loss) from operations	95	(1)
INTEREST EXPENSE, net	53	326
Income (loss) before income taxes	42	(327)
PROVISION (BENEFIT) FOR INCOME TAXES	17	(129)
NET INCOME (LOSS)	$ 25	$ (198)
NET INCOME (LOSS) PER SHARE:		
Basic and diluted	$ 0.00	$ (0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic and diluted	14,305	14,305

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

Pfsweb

INTERIM CONDENSED COMBINED STATEMENTS OF CASH FLOWS (UNAUDITED) (IN THOUSANDS) THREE MONTHS ENDED JUNE 30, 1998 1999

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 25	$ (198)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	35	216
Provision for doubtful accounts	79	5
Deferred income tax benefit	(50)	(15)
Changes in operating assets and liabilities:		
Accounts receivable	(2,210)	(565)
Inventories, net	(665)	5,264
Prepaid expenses and other current assets	--	200
Trade accounts payable and accrued expenses	1,496	(9,312)
Net cash used in operating activities	(1,290)	(4,405)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(339)	(2,077)
Increase in other assets	(3,980)	(163)
Net cash used in investing activities	(4,319)	(2,240)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in payable to Daisytek, net	5,565	8,460
Net cash provided by financing activities	5,565	8,460
EFFECT OF EXCHANGE RATES ON CASH	(44)	6
NET (DECREASE) INCREASE IN CASH	(88)	1,821
CASH, beginning of period	113	587
CASH, end of period	$ 25	$ 2,408

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

Pfsweb

Notes to Unaudited Interim Condensed Combined Financial Statements

1. Basis of Presentation:

PFSweb (the "Company") reflects the business operations of certain wholly-owned subsidiaries of Daisytek International Corporation ("Daisytek"). PFSweb's business unit was formed in 1991 and expanded in 1996 under the name "Priority Fulfillment Services." The Company is currently wholly-owned by Daisytek. Accordingly, Daisytek exerts substantial influence over, and has the ability to direct all operations of, the Company. The Company is an international provider of transaction management services to both traditional and e-commerce companies and sells products and services primarily in the United States, Canada and Europe. The Company offers such services as order management, customer care, billing, credit management and collection, information management, and distribution. The Company provides its services under fee-based contracts (where service fee revenue is based on either the sales value of the products or service activity volume) and under master distributor agreements (where the Company takes title to and resells the product).

In June 1999, Daisytek created a separate wholly-owned subsidiary and PFSweb, Inc., a Delaware corporation, to become a holding company for PFSweb upon completion of an initial public offering (the "Offering"). Daisytek has contributed $20,000 for 14,305,000 shares of PFSweb, Inc. Simultaneous with the effective date of the Offering, the assets, liabilities and equity which currently comprise PFSweb will be contributed to PFSweb, Inc. No separate financial statements of PFSweb, Inc. have been provided because it is a holding company and they only reflect cash and equity of $20,000.

Daisytek plans to divest PFSweb, in two stages. The first stage involves the sale and issuance of common stock of PFSweb, Inc. in this Offering. The second stage, planned to occur in the year 2000, involves Daisytek distributing to holders of its common stock all of its interest in PFSweb, Inc. through a spin-off transaction in which the shares of PFSweb, Inc. would be distributed to Daisytek common

stockholders on a pro-rata basis. Daisytek, however, is not obligated to effect the spin-off through the distribution of its interest and the Company cannot provide assurance as to whether or when it will occur.

The interim condensed combined financial statements as of June 30, 1999, and for the three months ended June 30, 1998 and 1999, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and are unaudited. The interim condensed combined financial statements are presented on a carve-out basis and reflect the combined results of operations and assets and liabilities of PFSweb. For all periods presented, certain expenses reflected in the interim condensed combined financial statements include an allocation of certain Daisytek corporate expenses and infrastructure costs. Management believes that the method used to allocate expenses is reasonable, although the cost of services could be higher if obtained from other sources. In addition, certain service fee revenue and cost of service fee revenue have been reflected by PFSweb for services subcontracted to PFSweb by Daisytek. The service fee revenue, cost of service fee revenue and allocated expenses have been reflected on bases that Daisytek and PFSweb consider to be a reasonable reflection of the services provided and revenue earned by PFSweb and the utilization of services provided by Daisytek and the benefit received by PFSweb. However, an allocation of the salaries and benefits of Daisytek corporate executives have not been allocated or reflected in the interim condensed combined financial statements of PFSweb because management believes that the service provided by these executives were related to corporate level activities. The financial information included herein may not reflect the combined financial position, operating results, changes in Daisytek's net investment and cash flows of PFSweb in the future or what it would have been had PFSweb been a separate, stand-alone entity during the periods presented.

Notes to Unaudited Interim Condensed Combined Financial Statements -- (Continued)

In the opinion of management, the unaudited interim condensed combined financial statements include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company's financial position as of June 30, 1999, its results of operations and its results of cash flows for the three months ended June 30, 1998 and 1999. Results of the Company's operations for interim periods may not be indicative of results for the full fiscal year.

The unaudited interim condensed combined financial statements should be read in conjunction with the audited combined financial statements and accompanying notes for the years ended March 31, 1997, 1998 and 1999 included herein. Accounting policies used in the preparation of the unaudited interim condensed combined financial statements are consistent in all material respects with the accounting policies described in the notes to audited combined financial statements.

2. Comprehensive Income (Loss) (In Thousands):

THREE MONTHS ENDED JUNE 30, 1998 1999

Net income (loss)	$ 25	$(198)
Comprehensive income adjustments:		
Foreign currency translation adjustment	(19)	(57)
Comprehensive income (loss)	$ 6	$(255)

3. Transactions with Daisytek and Other Related Parties:

The Company's product revenue from sales to Daisytek was $3.6 million and $4.1 million for the three months ended June 30, 1998 and 1999, respectively.

The Company's cost and expenses include allocations from Daisytek for certain general administrative services including information technology, financial, treasury, legal, insurance and other corporate functions as well as certain costs of operations including facility charges. These allocations have been estimated on bases that Daisytek and the Company consider to be a reasonable reflection of the utilization of services provided or the benefit received by the Company. However, these allocations of costs and expenses do not necessarily indicate the costs and expenses that would have been or will be incurred by the Company on a stand-alone basis.

In addition, included in the combined financial statements are service fee revenues and cost of service fee revenue which have been reflected by PFSweb for certain services subcontracted to PFSweb by Daisytek under Daisytek's contractual agreements. Service fee revenues applicable to these contracts were $146,000 and $186,000 for the three months ended June 30, 1998 and 1999, respectively.

In May 1999, the Company entered into an agreement to provide services to a certain company. An executive officer and director of PFSweb serve on the Board of Directors of this company.

PFSweb, along with several other Daisytek subsidiaries, has guaranteed an unsecured revolving line of credit with commercial banks of Daisytek (the "Facility"). As of June 30, 1999, Daisytek had borrowed $43.0 million and has a maximum borrowing availability of $85.0 million under the Facility, leaving approximately $42.0 million available under the Facility. The Facility, and PFSweb's guarantee thereon, expires on December 31, 2000.

4. Net Income (Loss) Per Common Share:

The Company computed net income (loss) per share in accordance with SFAS No. 128 "Earnings Per Share." Basic and diluted net income (loss) per common share attributable to PFSweb common stock was determined based on net income (loss) divided by the 14,305,000 shares of PFSweb, Inc. outstanding prior to the Offering. For purposes of the net income (loss) per common share calculation, the shares outstanding prior to the Offering are treated as outstanding for all periods presented. There were no potentially dilutive securities outstanding during the periods presented.

5. Subsequent Events:

On August 31, 1999, the Company entered into a lease for an approximately 442,000 square foot distribution facility in Memphis, Tennessee. The five year lease, with monthly lease payments totaling approximately $109,000, expires on August 31, 2004 and contains a renewal option for four years.

PFSweb, Inc. has authorized 6,000,000 shares of common stock for issuance under its 1999 stock option plans (the "Option Plans"). The Option Plans, which are currently administered by the Compensation Committee of the Board of Directors of PFSweb, Inc. provide for the granting of incentive awards in the form of stock options to directors, executive management, key employees, and outside consultants of PFSweb, Inc. and its subsidiaries. The right to purchase shares under the stock option agreements typically vest over a three year period. Stock options must be exercised within 10 years from the date of grant. Stock options are generally issued at fair market value. In July 1999, PFSweb, Inc. issued options to purchase 1,344,250 common shares at $10.45. In August 1999, PFSweb, Inc. issued options to purchase 32,250 common shares at $13.00. All of these options are subject to a three year vesting schedule, under which no options vest for three years, subject to acceleration, in part, upon completion of the spin-off of PFSweb, Inc. from Daisytek.

On September 21, 1999, Daisytek announced its plans to file this Offering. In conjunction with the successful completion of this Offering, PFSweb, Inc. has stated its intention to enter into agreements with Daisytek, including a tax sharing agreement, a transaction management services agreement, transition services agreement and a master separation agreement which are expected to have a significant impact on the financial position and results of operations of PFSweb, Inc.

Pfsweb, Inc.

PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED BALANCE SHEETS (UNAUDITED) JUNE 30, 1999 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	SUPPLEMENTAL PRO FORMA ADJUSTMENTS	SUPPLEMENTAL PRO FORMA
ASSETS					
CURRENT ASSETS:					
Cash	$ 2,408	$ 20(10)	$ 2,428	$ 7,660(3),(4)	$10,088
Accounts receivable, net	22,729	--	22,729	(17,672)(3)	5,057
Inventories, net	24,568	--	24,568	(24,568)(3)	--
Prepaid expenses and other current assets	846	--	846	--	846
Deferred tax asset	420	--	420	--	420
Total current assets	50,971	20	50,991	(34,580)	16,411
PROPERTY AND EQUIPMENT:					
Furniture, fixtures and equipment	4,977	--	4,977	5,873(4)	10,850
Leasehold improvements	121	--	121	175(4)	296
	5,098	--	5,098	6,048	11,146
Less -- Accumulated depreciation and amortization	(516)	--	(516)	--	(516)
Net property and equipment	4,582	--	4,582	6,048	10,630
OTHER ASSETS	12,414	--	12,414	--	12,414
Total assets	$67,967	$ 20	$67,987	$(28,532)	$39,455
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES:					
Trade accounts payable	$29,403	$	$29,403	$(26,984)(3)	$ 2,419
Accrued expenses	749	--	749	62	811
Total current liabilities	30,152	--	30,152	(26,922)	3,230
PAYABLE TO DAISYTEK	37,349	(35,479)(2)	1,870	(1,870)	--
CAPITAL LEASE OBLIGATIONS	--	--	--	260	260
SHAREHOLDERS' EQUITY:					
Preferred stock, $1.00 par value, 1,000,000 shares authorized, none issued and					

outstanding.....	--	--	--	--	--
Common stock, no par value, 40,000,000 shares authorized, 17,405,000 shares issued and outstanding (pro forma and supplemental pro forma).....	--	--	--	--	--
Additional paid-in capital....	--	36,153(1),(2),(10)	36,153	--	36,153
Daisytek's net equity investment.....	654	(654)(1),(2)	--	--	--
Accumulated other comprehensive loss.....	(188)	--	(188)	--	(188)
Total shareholders' equity.....	466	35,499	35,965	--	35,965
Total liabilities and shareholders' equity...	$67,967	$ 20	$67,987	$(28,532)	$39,455

The accompanying notes are an integral part of these unaudited pro forma and supplemental pro forma combined statements.

Pfsweb, Inc.

PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE YEAR ENDED MARCH 31, 1999 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	SUPPLEMENTAL PRO FORMA ADJUSTMENTS	SUPPLEMENTAL PRO FORMA
REVENUES:					
Product revenue.....	$ 93,702	$ --	$ 93,702	$(93,702)(6)	$ --
Service fee revenue....	7,547	--	7,547	23,963(6),(7)	31,510
Total revenues.....	101,249	--	101,249	(69,739)	31,510
COSTS OF REVENUES:					
Cost of product revenue.....	88,335	--	88,335	(88,335)(6)	--
Cost of service fee revenue.....	5,323	--	5,323	13,203(6),(7)	18,526
Total costs of revenues.....	93,658	--	93,658	(75,132)	18,526
Gross profit.....	7,591	--	7,591	5,393	12,984
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	6,559	2,309(5)	8,868	(236)(6),(7)	8,632
Income (loss) from operations.....	1,032	(2,309)	(1,277)	5,629	4,352
INTEREST EXPENSE (INCOME), net.....	374	(1,039)(2)	(665)	374	(291)
Income before income taxes.....	658	(1,270)	(612)	5,255	4,643
PROVISION (BENEFIT) FOR INCOME TAXES(8).....	273	(457)	(184)	1,884	1,700

NET INCOME (LOSS).....	$ 385	$ (813)	$ (428)	$ 3,371	$ 2,943
NET INCOME (LOSS) PER COMMON SHARE(9):					
Basic and diluted.....	$ 0.03	$ (0.05)	$ (0.02)	$ 0.19	$ 0.17
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:					
Basic and diluted.....	14,305	17,405	17,405	17,405	17,405

The accompanying notes are an integral part of these unaudited pro forma and supplemental pro forma combined statements.

Pfsweb, Inc.

PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE THREE MONTHS ENDED JUNE 30, 1999 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA	SUPPLEMENTAL PRO FORMA ADJUSTMENTS	SUPPLEMENTAL PRO FORMA
REVENUES:					
Product revenue.....	$32,620	$ --	$32,620	$(32,620)(6)	$ --
Service fee revenue.....	3,191	--	3,191	6,059(6),(7)	9,250
Total revenues.....	35,811	--	35,811	(26,561)	9,250
COSTS OF REVENUES:					
Cost of product revenue.....	30,793	--	30,793	(30,793)	--
Cost of service fee revenue.....	2,231	--	2,231	3,596(6),(7)	5,827
Total costs of revenues.....	33,024	--	33,024	(27,197)	5,827
Gross profit.....	2,787	--	2,787	636	3,423
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.....	2,788	596(5)	3,384	(268)(6),(7)	3,116
Income (loss) from operations.....	(1)	(596)	(597)	904	307
INTEREST EXPENSE (INCOME), net.....	326	(422)(2)	(96)	(45)(3)	(141)
Income (loss) before income taxes.....	(327)	(174)	(501)	949	448
PROVISION (BENEFIT) FOR INCOME TAXES(8).....	(129)	(37)	(166)	343	177
NET INCOME (LOSS).....	$ (198)	$ (137)	$ (335)	$ 606	$ 271
NET INCOME (LOSS) PER COMMON SHARE(9):					
Basic and diluted.....	$ (0.01)	$ (0.01)	$ (0.02)	$ 0.04	$ 0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:					
Basic and diluted.....	14,305	17,405	17,405	17,405	17,405

The accompanying notes are an integral part of these unaudited pro forma and supplemental pro forma combined statements.

Pfsweb, Inc.

NOTES TO PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED FINANCIAL STATEMENTS (UNAUDITED) PFSweb's historical financial statements reflect its operations and client agreements prior to the following transactions. As of October 1, 1999, PFSweb has restructured its arrangements with IBM, one of its key clients, so that the transaction management services it provides for IBM will no longer include purchasing and reselling IBM product inventory, but instead will be reflected as service fees. In addition, upon completion of this offering, PFSweb will enter into a transaction management services agreement with Daisytek and begin recording service fee revenue for this agreement. PFSweb's historical financial statements, therefore, may not provide a meaningful basis for analyzing its business in the future. To assist in evaluating PFSweb's ongoing business, PFSweb has provided the following pro forma and supplemental pro forma financial information.

The column labeled "pro forma" shows how PFSweb's historical financial data would reflect:

- the contribution from Daisytek of $20,000 for 14,305,000 shares of PFSweb, Inc. common stock;

- the reclassification of Daisytek's net investment as common stock and additional paid-in-capital;

- the issuance of 3,100,000 shares of common stock in this offering and the anticipated application of the net proceeds; and - the incremental cost PFSweb expects to incur as a stand-alone publicly traded company.

The column labeled "supplemental pro forma" shows how the pro forma financial data would reflect what PFSweb's results would have been:

- under its prior IBM agreements if PFSweb had received service fees instead of purchasing IBM products and reselling them;

- if it had performed transaction management services and recorded service fee revenue for its business with Daisytek under its new agreement; and - if PFSweb had acquired certain assets and liabilities from Daisytek as part of its separation from Daisytek.

The unaudited pro forma and supplemental pro forma combined statements of operations of PFSweb, Inc. for the fiscal year ended March 31, 1999 and the three months ended June 30, 1999 have been prepared based on the combined financial statements and unaudited condensed interim combined financial statements and related notes presented elsewhere in this prospectus. The unaudited pro forma and supplemental pro forma combined statements of operations and the unaudited pro forma and supplemental pro forma combined balance sheet have been prepared as if the transactions and events described in the following paragraphs had occurred as of the beginning of the respective periods presented, and as of June 30, 1999, respectively.

PFSweb based the following pro forma adjustments on available information and certain estimates and assumptions. Therefore, it is likely that the actual adjustments will differ from the pro forma and supplemental pro forma adjustments. PFSweb believes that such assumptions provide a reasonable basis for presenting all of the significant effects of the following transactions and events and that the

pro forma and supplemental pro forma adjustments give appropriate effect to those assumptions and are properly applied in the unaudited pro forma and supplemental pro forma combined financial statements.

Pfsweb, Inc.

NOTES TO PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED) (UNAUDITED) (1) Reflects the reclassification of Daisytek's net equity investment as common stock and additional paid-in capital.

(2) Reflects the issuance of 3,100,000 shares of common stock in this offering, assuming an initial public offering price of $13.00 per share, and the application of the estimated $35.5 million net proceeds to reduce the payable to Daisytek. The pro forma adjustments reflect the reduction of interest expense associated with our payable to Daisytek. See "Capitalization" and "Use of Proceeds" elsewhere in this prospectus.

(3) Reflects PFSweb's restructuring of its agreements with IBM as of October 1, 1999. Under PFSweb's prior agreements, its services for IBM included serving as a master distributor and purchasing and reselling the product inventory to IBM customers. Under PFSweb's new agreements with IBM, Daisytek will act as the master distributor (and be responsible for the purchase and resale of the product inventory and retain the customer revenue) and PFSweb will continue to perform most of the other transaction management services it had provided previously. As part of these new IBM agreements, PFSweb will receive service fees from Daisytek for the transaction management services that it provides. In connection with the restructuring of PFSweb IBM agreements, as of October 1, 1999, it transferred to Daisytek the IBM-related product inventory, customer accounts receivable and accounts payable that it held under its prior agreements. In consideration of this transfer, Daisytek will pay to PFSweb the net value of these assets and liabilities (approximately $15.3 million as of June 30, 1999). From this amount, PFSweb will repay to Daisytek the remaining balance of the payable to Daisytek (approximately $1.9 million as of June 30, 1999). The pro forma adjustments reflect the reduction of interest expense associated with PFSweb's payable to Daisytek, but do not reflect investment interest income generated, if any, by excess cash (proceeds in excess of payable to Daisytek) which will be temporarily invested until used to fund expected growth in the business.

(4) Reflects the transfer upon completion of this offering from Daisytek of all of the fixed assets in the Memphis distribution facility as well as certain assets associated with providing information technology services and the stock of several subsidiaries of Daisytek representing the business operations of PFSweb and PFSweb will transfer to Daisytek $5.7 million in cash and assume $0.3 million of certain capital lease obligations, as well as the operating lease obligations, related to these assets.

(5) Reflects certain estimated incremental selling, general and administrative expenses associated with PFSweb operating as a stand-alone publicly traded company, including executive management, overhead and public company costs, insurance and risk management costs, and other costs.

(6) Reflects the conversion of historically recorded product revenue and associated cost of product revenue to service fee revenue and related cost of service fee revenue associated with the adjustments discussed in Note (3) above. The service fee revenue impact of this conversion is an incremental $5.5 million for fiscal 1999 and $1.8 million for the three months ended June 30, 1999. Additionally, a reduction of service fee revenue for fiscal 1999 and for the three months ended June 30, 1999 of $1.1 million and $0.4 million, respectively, is associated with Daisytek providing certain services which PFSweb previously provided to IBM. In addition, certain activities that have historically been classified as selling, general and administrative expenses will be directly related to these contracts and have been reclassified to cost of service fee revenue. These amounts are F-26

NOTES TO PRO FORMA AND SUPPLEMENTAL PRO FORMA COMBINED FINANCIAL STATEMENTS -- (CONTINUED) (UNAUDITED) approximately $1.5 million for fiscal 1999 and $0.7 million for the three months ended June 30, 1999.

(7) Reflects entering into a transaction management services agreement with Daisytek upon completion of this offering under which PFSweb will provide transaction management services for Daisytek's U.S. wholesale consumable computer supplies business. The supplemental pro forma adjustments include service fee revenues of approximately $19.7 million for fiscal 1999 and $4.6 million for the three months ended June 30, 1999. In addition, this reflects the estimated operating costs associated with the performance of this transaction management services agreement and includes (i) operating costs associated with the Memphis distribution center, including the salaries of management and personnel, warehousing and distribution costs, and depreciation expenses and (ii) operating costs associated with the information technology function, including the salaries of management and personnel, telephone and lease costs, and depreciation expense. These costs are approximately $11.6 million for fiscal 1999 and $2.9 million for the three months ended June 30, 1999. This also reflects certain estimated additional expenses associated with performing services required in connection with the transaction management services agreement of approximately $1.3 million for fiscal 1999 and $0.4 million for the three months ended June 30, 1999. This adjustment does not consider existing selling, general and administrative infrastructure costs which will support this business but which are already reflected as historical costs.

(8) Reflects income taxes determined in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." The pro forma adjustments to the provision (benefit) for taxes reflect income taxes as if these transactions and events had occurred as of the beginning of the respective period presented. These pro forma effective income tax rates may not be indicative of performance in future periods.

(9) Reflects basic pro forma net income per share calculated based on common stock outstanding of 17,405,000 shares upon completion of this offering. It does not include up to 465,000 shares of common stock which the underwriters have the option to exercise solely to cover over-allotments. If the underwriters exercise their over-allotment option in full, basic and diluted pro forma net loss per share would be ($0.02) and basic and diluted supplemental pro forma net loss per share would be $0.16

for the fiscal year ended March 31, 1999. Basic and diluted pro forma net loss per share would be ($0.02) and basic and diluted supplemental pro forma net income per share would be $0.02 for the three months ended June 30, 1999.

(10) Reflects the contribution from Daisytek of $20,000 for 14,305,000 shares of PFSweb's common stock.

3,100,000 Shares

Pfs Logo

Common Stock

Prospectus

Hambrecht & Quist

Dain Rauscher Wessels a Division of Dain Rauscher Incorporated

William Blair & Company

Jefferies & Company, Inc.

, 1999

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is contained in this prospectus. We are offering to sell and seeking offers to buy shares of PFSweb, Inc. common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the PFSweb, Inc. common stock.

Through and including , 1999 (the 25th day after commencement of the offering), all dealers effecting transactions in the common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Part Ii

Information Not Required in Prospectus

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable in connection with the sale and distribution of the securities being registered. All amounts are estimated except the Securities and Exchange Commission registration fee and the registration fee.

Item Amount

Securities and Exchange Commission registration fee..... $ 13,875 NASD registration fee..... 5,500 Nasdaq Stock Market listing fees..... Blue Sky qualification fees and expenses..... Legal fees and expenses..... Accounting fees and expenses..... Transfer agent and registrar fees..... Printing and engraving expenses..... Miscellaneous expenses..... Total..... $

Item 14. Indemnification of Directors and Officers

PFSweb is incorporated under the laws of the State of Delaware. Section 145 ("Section 145") of the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (the "General Corporation Law"), inter alia, provides that a Delaware corporation may indemnify any persons who were, are or are threatened to be made, parties to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person is or was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation's best interests and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was illegal.

Section 145 further authorizes a corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise,

against any liability asserted against him and incurred by him in any such capacity, arising out of his status as such, whether or not the corporation would otherwise have the power to indemnify him under Section 145.

PFSweb's Amended and Restated Certificate of Incorporation and Bylaws provide for the indemnification of officers and directors to the fullest extent permitted by the General Corporation Law.

PFSweb anticipates that all of its directors and officers will be covered by insurance policies against certain liabilities for actions taken in their capacities as such, including liabilities under the Securities Act of 1933, as amended.

Item 15. Recent Sales of Unregistered Securities

In connection with its incorporation and organization, PFSweb issued 14,305,000 shares of common stock to Daisytek for an aggregate of $20,000. PFSweb believes that this issuance was exempt from registration under Section 4(2) of the Securities Act as a transaction not involving any public offering.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

Exhibit Number Description

1.1*	-- Form of Underwriting Agreement
2.1	-- Form of Master Separation Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.2	-- Form of Initial Public Offering and Distribution Agreement by and among Daisytek International Corporation, Daisytek, Incorporated, Priority Fulfillment Services, Inc. and PFSweb, Inc.
2.3	-- Form of Registration Rights Agreement by and among Daisytek International Corporation, Daisytek, Incorporated and PFSweb, Inc.
2.4*	-- Form of Tax Sharing Agreement between Daisytek International Corporation and PFSweb, Inc.
2.5	-- Form of Transition Services Agreement between Daisytek Incorporated and PFSweb, Inc.
2.6	-- Form of Transaction Management Services Agreement between Daisytek, Incorporated and Priority Fulfillment Services, Inc.
3.1	-- Amended and Restated Certificate of Incorporation
3.2	-- Bylaws
4.1*	-- Form of Common Stock certificate of PFSweb, Inc.
5.1*	-- Opinion of Wolff & Samson, P.A.
10.1	-- Non-Employee Director Stock Option and Retainer Plan
10.2	-- Employee Stock Option Plan
10.3*	-- Employee Award Plan
10.4	-- Industrial Lease Agreement between Shelby Drive Corporation and Priority Fulfillment Services, Inc.

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10.5            -- Lease Contract between Transports Weerts and Priority
                   Fulfillment Services Europe B.V.
21.1            -- Subsidiaries of PFSweb, Inc.
23.1            -- Consent of Arthur Andersen LLP
23.2*           -- Consent of Wolff & Samson, P.A. (included in Exhibit 5.1)
24.1            -- Power of Attorney (contained on Page II-4)
27.1            -- Financial Data Schedule
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* To be filed by amendment.

(b) Financial Statement Schedule.

Schedule II -- Valuation and Qualifying Accounts Schedules have been omitted because the information required to be set forth therein is not applicable or is immaterial.

Item 17. Undertakings

The Registrant hereby undertakes to provide the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

Insofar as the indemnification for liabilities arising under the Securities Act of 1933 may be permitted as to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the Registrant has been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payments by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and (2) for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Plano, State of Texas, on September 23, 1999.

/s/ MARK C. LAYTON Mark C. Layton President, Chief Executive Officer and Director KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Thomas J. Madden and Harvey H. Achatz, and each of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective statements), and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof. This Power of Attorney may be signed in several counterparts.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons on September 23, 1999 in the capacities indicated.

Signature Title

/s/ MARK C. LAYTON - ---------- Mark C. Layton	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
/s/ THOMAS J. MADDEN - ---------- Thomas J. Madden	Executive Vice President and Chief Financial and Accounting Officer (Principal Financial and Accounting Officer)

/s/ CHRISTOPHER YATES Director Christopher Yates /s/ JAMES R. POWELL Director James R. Powell /s/ TIMOTHY M. MURRAY Director Timothy M. Murray /s/ JAMES F. REILLY Director James F. Reilly /s/ PETER P. J. VIKANIS Director Peter P. J. Vikanis

Report of Independent Public Accountants

To Daisytek International Corporation and PFSweb, Inc.:

We have audited in accordance with generally accepted auditing standards, the combined financial statements of PFSweb included in this registration statement and have issued our report thereon dated September 22, 1999. Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. Schedule II of this registration statement is the

responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic combined financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic combined financial statements taken as a whole.

Arthur Andersen Llp

Dallas, Texas, September 22, 1999

Schedule Ii Pfsweb

VALUATION AND QUALIFYING ACCOUNTS FOR THE THREE YEARS ENDED MARCH 31, 1999 (AMOUNTS IN THOUSANDS)

	ADDITIONS			
BALANCE AT BEGINNING OF PERIOD	CHARGES TO COST AND EXPENSES	CHARGES TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD

Fiscal Year Ended March 31, 1997: Allowance for doubtful accounts..... $ -- 122 -- -- $122 Fiscal Year Ended March 31, 1998: Allowance for doubtful accounts..... $122 299 -- (103) $318 Fiscal Year Ended March 31, 1999: Allowance for doubtful accounts..... $318 344 -- (27) $635

Index to Exhibits

Exhibit Number Description

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24.1	--	Power of Attorney (contained on Page II-4)
27.1	--	Financial Data Schedule

* To be filed by amendment. </TEXT>