

PFSWEB INC  
Form DEF 14A  
April 30, 2010

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**PFSweb, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - 1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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5) Total fee paid:

- o Fee paid previously with preliminary materials.
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SEC 1913 (11-01)

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**PFSweb, Inc.**  
**500 North Central Expressway**  
**Suite 500**  
**Plano, Texas 75074**

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of PFSweb, Inc. (the Company), which will be held at TPC Craig Ranch, McKinney, Texas, on Friday, June 4, 2010 at 10:00 a.m. (local time).

At the Annual Meeting, stockholders will be asked to (i) elect one director, (ii) approve amendments to the Company's Non-Employee Director Stock Option and Retainer Plan and (iii) ratify the appointment of Grant Thornton LLP as the Company's independent auditors. Information about these matters is contained in the attached Proxy Statement.

It is important that your shares be represented at the Annual Meeting, regardless of the number you hold. To ensure your representation at the Annual Meeting, you are urged to complete, date, sign and return the enclosed proxy as promptly as possible. A postage-prepaid envelope is enclosed for that purpose. In addition, to ensure your representation at the Annual Meeting, you may vote your shares by (a) calling the toll free telephone number indicated on the proxy card or (b) accessing the special web site indicated on the proxy card, each as more fully explained in the telephone and internet voting instructions. If you attend the Annual Meeting, you may vote in person even if you have previously returned a proxy card. Please note that if you hold your shares of our common stock through your broker, you will not be able to vote in person at the meeting.

I sincerely hope you will be able to attend the Annual Meeting, and I look forward to seeing you on June 4, 2010.

Sincerely,

Mark C. Layton

*Chairman, President and Chief Executive Officer*

April 30, 2010

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**PFSweb, Inc.**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**June 4, 2010**

The Annual Meeting of Stockholders of PFSweb, Inc. (the Company ) will be held on Friday, June 4, 2010 at 10:00 a.m. at TPC Craig Ranch, McKinney, Texas, for the following purposes:

1. To elect one Class II director;
2. To approve amendments to the Company s Non-Employee Director Stock Option and Retainer Plan;
3. To ratify the appointment of Grant Thornton LLP as the Company s independent auditors for the fiscal year ending December 31, 2010; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has fixed the close of business on April 16, 2010 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting. Each stockholder, even though he or she may presently intend to attend the Annual Meeting, is requested to execute and date the enclosed proxy card and return it without delay in the enclosed postage-paid envelope. Any stockholder present at the Annual Meeting may withdraw his or her proxy card and vote in person on each matter properly brought before the Annual Meeting.

Please sign, date and mail the enclosed proxy in the enclosed envelope promptly, so that your shares of stock may be represented at the meeting.

By Order of the Board of Directors

Cindy Almond

*Secretary*

Plano, Texas

April 30, 2010

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**PFSweb, Inc.**  
**500 North Central Expressway, Suite 500**  
**Plano, Texas 75074**  
**(972) 881-2900**

**PROXY STATEMENT**

We are furnishing this Proxy Statement in connection with the solicitation of proxies on behalf of the Board of Directors of PFSweb, Inc. ( PFSweb, the Company, we, us, or our ) to be voted at the Annual Meeting of Stockholders to be held at TPC Craig Ranch, McKinney, Texas, on Friday, June 4, 2010, at 10:00 a.m. and at any and all adjournments thereof. This Proxy Statement, the Notice of Annual Meeting, the accompanying Proxy and the Annual Report on Form 10-K are first being mailed to stockholders on or about May 6, 2010.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD JUNE 4, 2010:**

The enclosed proxy statement and 2009 Annual Report on Form 10-K are available at [www.pfsweb.com/proxymaterials](http://www.pfsweb.com/proxymaterials).

**VOTING PROCEDURES**

**Your vote is very important.** You can vote the shares of PFSweb common stock that are held directly in your name and not through your brokerage account at the Annual Meeting if you are present in person or represented by proxy. You may revoke your proxy at any time before the Annual Meeting by delivering written notice to our Secretary, by submitting a proxy bearing a later date or by appearing in person and casting a ballot at the Annual Meeting. If we receive a properly executed proxy before voting at the Annual Meeting is closed, the persons named as the Proxy on the proxy card will vote the proxy in accordance with the directions provided on that card. If you do not indicate how your shares are to be voted, your shares will be voted as recommended by the Board. If you wish to give a proxy to someone other than the persons named on the proxy card, you should cross out the names contained on the proxy card and insert the name(s) of the person(s) who hold(s) your proxy. Please note that the person(s) to whom you give your proxy **must** be present in person at the Annual Meeting to vote your shares.

**Who can vote?**

Stockholders of record as of the close of business on April 16, 2010, are entitled to vote at the Annual Meeting. On that date, 9,954,957 shares of our common stock were outstanding. Excluding 18,361 shares of common stock in treasury, 9,936,596 shares of our common stock were eligible to vote. Each share is entitled to one vote on each matter presented at the Annual Meeting. The closing sale price of the common stock as reported on the NASDAQ Capital Market on the record date was \$3.95 per share.

**How do I vote?**

You can vote in person at the Annual Meeting. Alternatively, a stockholder who holds shares of our common stock of record and not in street name may vote shares by giving a proxy via mail, telephone or the Internet. To vote your proxy by mail, indicate your voting choices, sign and date your Proxy and return it in the postage-paid envelope provided. You may vote by telephone or the Internet by following the instructions on your Proxy. Your telephone or Internet delivery authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your Proxy via the mail.

If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name. The Proxy Statement, the Notice of Annual Meeting, the accompanying Proxy and the Annual Report on Form 10-K have been forwarded to you by your broker, bank or other holder of record who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or on the Internet.

All stockholders may vote in person at the Annual Meeting. You may also be represented by another person at the Annual Meeting by executing a proper proxy designating that person. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or other holder of record and present it to the inspectors of election with your ballot to be able to vote at the Annual Meeting.

**What shares are represented by the Proxy?**

The Proxy that we are delivering represents all the shares registered in your name with our transfer agent, BNY Mellon Shareowner Services. The proxy that is delivered by your broker, bank or other nominee represents the shares held by you in an account at that institution.

**How are votes counted?**

If you return a signed and dated Proxy but do not indicate how the shares are to be voted, those shares will be voted as recommended by the Board. A valid Proxy also authorizes the individuals named as proxies to vote your shares in their discretion on any other matters which, although not described in the Proxy Statement, are properly presented for action at our Annual Meeting. If you indicate on your Proxy that you wish to abstain from voting on an item, your shares will not be voted on that item. Abstentions and broker non-votes are not counted in determining the number of shares voted for or against any nominee for Director or any other proposal, but will be counted to determine whether there is a quorum present. There is no right to cumulative voting.

**What Vote is Required to Approve Matters Presented at the Annual Meeting?**

Our directors are elected by a plurality of the votes of shares of common stock cast at the Annual Meeting. Ratification of the selection of Grant Thornton LLP as our independent auditors and approval of amendments to our Non-Employee Director Stock Option and Retainer Plan each require the affirmative vote of the majority of the shares of common stock cast upon the proposal at the Annual Meeting.

Generally, a broker non-vote occurs when a broker, bank or other nominee holding shares in street name for a beneficial owner does not vote the shares on a proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that proposal and has not received voting instructions from the beneficial owner. A nominee is entitled to vote shares held for a beneficial owner on routine matters, such as the ratification of the selection of Grant Thornton LLP as our independent auditors, without instructions from the beneficial owner of those shares. However, absent instructions from the beneficial owner of such shares, a nominee is not entitled to vote shares held for a beneficial owner on certain non-routine matters. It is our understanding that the election of our directors and the approval of amendments to our Non-Employee Director Stock Option and Retainer Plan will be treated as non-routine matters.

If you hold your shares in street name, it is critical that you cast your vote if you want it to count on all matters to be decided at the Annual Meeting. In the past, if you held your shares in street name and you did not indicate how you wanted your shares voted in the election of directors, your bank, broker, or other nominee was allowed to vote those shares on your behalf in the election of directors as they felt appropriate. Recent regulatory changes were made to take away the ability of your bank, broker, or other nominee to vote your uninstructed shares in the election of directors on a discretionary basis. Thus, if you hold your shares in street name and you do not instruct your bank, broker, or other nominee how to vote in the election of directors, no votes will be cast on your behalf.

Broker non-votes are counted for purposes of determining whether or not a quorum exists for the transaction of business. Abstentions are counted for quorum purposes, but in effect count as negative votes because they are shares represented by proxy that are not voted in the affirmative. Broker non-votes are not shares represented by proxy and are not counted as part of the vote total and have no effect on the outcome.

The presence, in person or by proxy, of at least a majority of the shares outstanding on the record date will constitute a quorum. Both abstentions and broker non-votes are counted for the purpose of determining the presence of a quorum. If a quorum is not present, the Annual Meeting will be rescheduled for a later date.

**What is the recommendation of the Board of Directors?**

The Board of Directors recommends that stockholders vote (i) FOR the nominee of the Board of Directors (Item No. 1), (ii) FOR the amendments to our Non-Employee Director Stock Option and Retainer Plan (Item No. 2) and (iii) FOR the ratification of the appointment of Grant Thornton LLP as the Company's independent auditors for the fiscal year ending December 31, 2010 (Item No. 3). If you do not indicate how your shares are to be voted, your shares will be voted as recommended by the Board.

**Who will tabulate the vote?**

Our transfer agent, BNY Mellon Stockholder Services, will tally the vote, which will be certified by an inspector of election who is a PFSweb employee.

**Who will bear the expenses of our solicitation? How will we solicit votes?**

We will bear our own cost of solicitation of proxies. In addition to the use of the mail, proxies may be solicited by our directors and officers by personal interview, telephone, telegram, facsimile or e-mail. Our directors and officers will not receive additional compensation for this solicitation but may be reimbursed for out-of-pocket expenses incurred in connection with these activities. Arrangements may also be made with brokerage firms and other custodians, nominees and fiduciaries to forward solicitation materials to the beneficial owners of shares of our common stock held of record by these people or institutions, in which case we will reimburse these brokerage firms, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection with these forwarding activities. We may retain BNY Mellon Shareowner Services, LLC to assist in the solicitation of proxies for an estimated fee of \$10,000 plus reimbursement of expenses.

**Are there appraisal rights?**

Stockholders have no dissenters' rights of appraisal with respect to any of the matters to be voted upon at the Annual Meeting.

**ITEM NO. 1**

**NOMINEE FOR THE BOARD OF DIRECTORS**

The Board of Directors is divided into three classes. Each class serves three years, with the terms of office of the respective classes expiring in successive years. The term of the current Class I directors expires at the 2012 Annual Meeting; the term of the current Class II director expires at the 2010 Annual Meeting; and the term of the current Class III directors expires at the 2011 Annual Meeting. The Board presently consists of five members, two Class I directors, one Class II director and two Class III directors. The nominee to serve as Class II director who has been nominated and recommended by the Board of Directors is Dr. Neil W. Jacobs. If elected, Dr. Jacobs is expected to serve until the Company's 2013 annual meeting and until his successor is elected and qualified. The shares represented by proxies in the accompanying form will be voted for the election of the nominee unless authority to so vote is withheld. The Board of Directors has no reason to believe that such nominee will not serve if elected, but if he should become unavailable to serve as a director, and if the Board designates a substitute nominee, the person named as proxy will vote for the substitute nominee designated by the Board.

The following information, which has been provided by the individuals named, sets forth for each member of the Board of Directors, such person's name, age, principal occupation or employment during at least the past five years, the name of the corporation or other organization, if any, in which such occupation or employment is carried on and the period during which such person has served as a director of the Company. The following information also identifies and describes the key experience, qualifications and skills our directors bring to the Board that are important in light of our business and structure. The directors' experiences, qualifications and skills that the Board considered in their nomination are included in their individual biographies.

### **Class I Directors**

**David I. Beatson**, age 62, has served as a non-employee Director since November 2000. Mr. Beatson is Chief Executive Officer of Globalware Solutions ( GWS ), a global supply chain management solution provider with facilities in North America, Asia and Europe. GWS provides comprehensive state-of-the-art physical and digital supply chain solutions that enable clients to increase return on investment and improve time-to-market. Mr. Beatson is a recognized leader in the field of transportation, logistics and supply chain management having served as Chairman and CEO of several leading companies in the industry. From July 2003 to April 2005, Mr. Beatson served as Regional CEO North America and Member of the Executive Board of Panalpina, Inc., a leading provider of intercontinental airfreight and sea freight forwarding and transportation, specializing in global integrated logistics and comprehensive supply chain management solutions. From June 2000 to July 2001, Mr. Beatson served as president, CEO and Chairman of Supply Links, Inc., an Internet-based business-to-business global supply chain network that links customers to multiple transportation modes and service providers through a single platform. From July 1998 to June 2000, Mr. Beatson served as chairman, president and CEO of Circle International Group, Inc., a global transportation and logistics company. From 1991 to June 1994, Mr. Beatson served as vice-president of sales and marketing and then from June 1994 until July 1998 as president and CEO of Emery Worldwide, a global transportation and logistics company. Prior to 1991, Mr. Beatson held several management positions in the logistics and transportation industry, including American Airlines and CF Airfreight. Mr. Beatson also currently serves as an industry representative member of the Executive Advisory Committee to the National Industrial Transportation League, to which the Air Freight Association elected him in 1995. He also serves on several industry boards including the Council of Supply Chain Management Professionals. The Board of Directors believes the characteristics that qualify Mr. Beatson for the Board include his long-term experience in the transportation, logistics and supply chain management industry, leadership experience and judgment and knowledge of our Company's business.

**James F. Reilly**, age 51, has served as a non-employee Director of the Company since its inception in 1999. Mr. Reilly has been an investment banker since 1983 and is currently the Managing Partner of Stonepine Advisors, LLC, a financial and strategic consulting firm focused on high growth technology companies. He is also a Senior Advisor to Needham & Company, LLC, a nationally recognized investment banking and asset management firm focused primarily on serving emerging growth industries and their investors. He has served in various capacities with Needham & Company, LLC, since January 2004 including Head of West Coast Investment Banking. Previously he was a Managing Director of J.P. Morgan Securities, Inc., an investment banking firm, and a Managing Director in the Technology Group of Warburg Dillon Read, the global investment banking division of UBS AG. From 1983 to 1999, Mr. Reilly was associated with Warburg Dillon Read or one of its predecessor companies and specialized in corporate finance advisory work for a broad range of technology companies. The Board of Directors believes the characteristics that qualify Mr. Reilly for the Board include his financial and investment background, leadership experience and judgment and knowledge of our Company's business.

### **Class II Director**

**Dr. Neil W. Jacobs**, age 75, has served as a non-employee Director of the Company since July 2000. Dr. Jacobs is a technology industry veteran and Emeritus Professor of Management, at the W. A. Franke College of Business ( FCB ) at Northern Arizona University ( NAU ). In May 2007 he was elected to the *FCB Faculty Hall of Fame*. Dr. Jacobs academic areas of interest included strategic management and the role of information technology in support of strategy and operations. From 1996 to 1999, Dr. Jacobs served as associate dean of the College of Business Administration at NAU. Prior to his academic career, he served as an officer in the United States Air Force and held management positions in manufacturing, materials management, and information technology at IBM and Memorex. The Board of Directors believes the characteristics that qualify Dr. Jacobs for the Board include his leadership experience and judgment, academic expertise and broad industry knowledge and knowledge of our Company's business.

### **Class III Directors**

**Timothy M. Murray**, age 57, has served as a non-employee Director of the Company since its inception in 1999. Mr. Murray is a partner of Chicago Growth Partners (a private equity firm) and is a managing director of several private equity funds related to William Blair Capital Partners (a private equity firm). From 1979 to 2004, Mr. Murray



was employed at William Blair & Company (an investment banking firm) and was a Principal of that firm from 1984 to 2004. Mr. Murray is a director of several privately held corporations. The Board of Directors believes the characteristics that qualify Mr.

Murray for the Board include his financial and investment background, leadership experience and judgment and knowledge of our Company's business.

**Mark C. Layton**, age 50, has served as Chairman of the Board, President and Chief Executive Officer of PFSweb since its inception in 1999. Mr. Layton previously held the following positions with Daisytek International Corporation ( Daisytek ), a leading global distributor of consumable computer supplies and office products and the former parent corporation of the Company: Chairman of the Board from September 1999 to October 2000; President, Chief Executive Officer and Chief Operating Officer from April 1997 to February 2000; Director from 1988 to October 2000; President, Chief Operating Officer and Chief Financial Officer from 1993 to April 1997; Executive Vice President from 1990 to 1993; and 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. The Board of Directors believes the characteristics that qualify Mr. Layton for the Board include his long-term experience in the business process outsourcing and distribution industry, leadership experience and judgment and extensive knowledge of our Company's business.

#### **Executive Officers and Officers**

In addition to the individuals named above, the following are the names, ages and positions of the other executive officers and officers of the Company:

#### **Executive Officers**

**Steven S. Graham**, age 58, has served as Executive Vice President of the Company since inception in 1999. Mr. Graham is currently Chief Solutions Officer and prior to 2007, served as Chief Technology Officer of the Company from its inception in 1999. Mr. Graham previously served as Senior Vice President of Information Technologies and Chief Information Officer of Daisytek, a position he held from 1996 to 2000. Prior to joining Daisytek, Mr. Graham was employed as Vice President of Technology by Ingram Micro, a major technology distributor. Mr. Graham has over 34 years of experience in the information-technology and outsourcing fields.

**Thomas J. Madden**, age 48, has served as Executive Vice President, Chief Financial and Accounting Officer of the Company since its inception in 1999. Mr. Madden previously served as Chief Financial Officer of Daisytek from 1997 to 2000, as Vice President Finance, Treasurer and as Chief Accounting Officer of Daisytek from 1994 to 2000 and as Controller of Daisytek from 1992 to 1994. From 1983 to 1992, Mr. Madden served in various capacities with Arthur Andersen & Co., S.C., including financial consulting and audit manager.

**Michael C. Willoughby**, age 46, has served as President of Priority Fulfillment Services, a subsidiary of the Company, since February 2006. He also serves as Executive Vice President and Chief Information Officer of the company, positions he has held since October 2001. From 1999 to 2001, Mr. Willoughby served the Company as Vice President of E-Commerce. Prior to joining the Company, Mr. Willoughby served as President and Chief Executive Officer of Design Technologies, Inc., an e-commerce software development firm from 1994 to 1999. Prior to founding Design Technologies, Inc., Mr. Willoughby served as President and Chief Executive Officer of Integration Services, Inc., an IT consulting services company.

**Cynthia D. Almond**, age 42, has served as Vice President Client Services of the Company since March 2001 and as Secretary of the Company since 2007. From 1999 to 2001, Ms. Almond served as Director of Account Management. From 1991 to 1999, Ms. Almond served in various marketing, product management and sales capacities for Daisytek.

#### **Officers**

**Scott R. Talley**, age 45, has served as Vice President International Distribution for the Company since its inception in 1999. Mr. Talley previously served in various capacities for Daisytek since 1991, most recently as Vice President Distribution. Mr. Talley received a Bachelor of Business Administration degree from the University of North Texas and a Master's of Business Administration degree from New York Institute of Technology.

**Bruce E. McClung**, age 72, has served as Vice President Sales of the Company since October 2001. From 1999 to 2001, Mr. McClung served in various marketing and sales capacities for the Company. From 1995 to 1998, Mr. McClung served in various capacities for Daisytek. Mr. McClung has spent more than 25 years in sales, marketing and management roles in systems and solutions organizations, including Daisytek, IBM, Boeing and Perdata.

**David B. Reese**, age 47, has served as Vice President Business Solutions of the Company since November 2004. From 2000 to 2004, Mr. Reese served as Director of Implementation Services for the Company. Mr. Reese was Director of European Operations from January 1999 to May 2000. From 1995 to 1998, Mr. Reese served in various capacities for Daisytek International. Previously Mr. Reese was Vice President of Operations for a 3PL company, and also served as General Manager for several intermodel and distribution facilities.

**Gibson T. Dawson**, age 44, has served as Vice President Corporate Controller of the Company since May 2007. From 1998 to 2007, Mr. Dawson served as Corporate Controller for PFSweb. Prior to joining the Company, Mr. Dawson was controller for a recorded-music distribution company and prior to that spent more than 8 years with KPMG LLP in the assurance services practice.

### **Meetings and Committees of the Board**

The Board of Directors met a total of six times during the calendar year ended December 31, 2009. The Board of Directors has determined that, other than Mr. Layton, each director is independent within the meaning of applicable Securities and Exchange Commission ( SEC ) rules and NASD listing standards. The independent directors are able to and generally meet in executive session without the Company s management at each regularly scheduled Board meeting.

The Board of Directors does not have a policy regarding director attendance at the annual meeting of stockholders, and no director attended the 2009 annual meeting other than Mr. Layton.

The Board of Directors currently has standing Nominating, Audit, Compensation, and Stock Option Committees.

The Nominating Committee is responsible for identifying and evaluating individuals qualified to become Board members and recommending to the Board candidates to stand for election or re-election as directors. The Committee will consider candidates at the recommendation of existing Board members, Company management, search firms or other consultants, or stockholders. Stockholders wishing to recommend director candidates to the Board may do so by writing to the Committee in care of the Corporate Secretary at the Company s executive office, 500 North Central Expressway, Plano, TX 75074. At a minimum, director candidates should have demonstrated achievement in their particular field of endeavor, significant business or other management experience that would be of value to the Company, integrity and high ethical standards, good communication and leadership skills, and the ability and willingness to commit adequate time and attention to carry out their Board duties effectively. The Committee will evaluate candidates through background and reference checks, interviews and an analysis of each candidate s qualifications and attributes in light of the current composition of the Board and the Company s leadership needs at the time. The Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, but the Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills, experience and expertise to oversee the Company s business. The Committee has not retained outside consultants to assist the Committee in identifying or evaluating candidates, although the Committee is authorized to do so if it deems it appropriate under the circumstances. The members of the Nominating Committee are Timothy M. Murray and Dr. Neil W. Jacobs, each of whom has been determined to be independent as discussed above. The Nominating Committee has adopted a charter which is available on the Company s website at [www.pfsweb.com](http://www.pfsweb.com) (the contents of the website are not incorporated in this Proxy Statement by reference). The Nominating Committee met one time during the calendar year ended December 31, 2009.

The Audit Committee is established for the purpose of overseeing the Company s accounting and financial reporting processes and audits of the Company s financial statements. The Audit Committee is established to assist the Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to its stockholders. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of any independent auditor employed by the Company (including resolution of disagreements between management and the auditor

regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company. The Company's auditors report directly to the Audit Committee.

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The Audit Committee is comprised of three directors, Mr. Reilly, Mr. Beatson and Dr. Jacobs, each of whom has been determined by the Board of Directors to be independent as discussed above, and is able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. The Board of Directors has determined that, based on his relevant experience as described above, Mr. Reilly is qualified as the audit committee financial expert within the meaning of applicable SEC regulations and has the requisite financial sophistication required by the NASD listing standards. The Audit Committee met a total of five times during calendar year 2009. The Committee has adopted a written amended and restated audit committee charter setting out the audit-related functions of the Audit Committee, and the Committee reviews and reassesses the adequacy of the charter on an annual basis. A copy of the charter is available on the Company's website at [www.pfsweb.com](http://www.pfsweb.com).

The Compensation Committee approves, or in some cases recommends, to the Board, remuneration and compensation arrangements involving the Company's executive officers and other key employees. The current members of the Compensation Committee are Messrs. Murray and Reilly, who are independent as described above. The Compensation Committee also serves as the Stock Option Committee to administer the Company's employee stock option and purchase plans. The Compensation Committee has adopted a charter which is available on the Company's website at [www.pfsweb.com](http://www.pfsweb.com). The Compensation Committee and Stock Option Committee met one time during the calendar year ended December 31, 2009.

During fiscal year 2009, no current director or director nominee attended fewer than 75% of the aggregate of all meetings of the Board and the committees, if any, upon which such director served and which were held during the period of time that such person served on the Board or such committee.

#### **Communicating with the Board of Directors**

Stockholders wishing to communicate with one or more Directors or the Board as a whole may do so in a writing addressed to the Director(s) or the Board and sent to the Corporate Secretary, PFSweb, Inc., 500 North Central Expressway, Suite 500, Plano, TX 75074.

#### **Code of Ethics**

The Board has approved a code of business conduct and ethics in accordance with rules of the SEC and NASD listing standards applicable to all directors, officers and employees, including the chief executive officer, senior financial officers and the principal accounting officer. The code is intended to provide guidance to directors and management to assure compliance with law and promote ethical behavior. Copies of the Company's code of business conduct and ethics may be found on the Company's website at [www.pfsweb.com](http://www.pfsweb.com).

#### **Board Leadership Structure**

The Board of Directors believes that the Chief Executive Officer is best situated to serve as Chairman because he is the director most familiar with the Company's business and industry and most capable of effectively identifying strategic priorities and leading the discussion and execution of strategy. The Board believes this provides an efficient and effective leadership model for the Company. The Board believes that combining the Chairman and Chief Executive Officer roles fosters clear accountability, effective decision-making and alignment on corporate strategy. To assure effective independent oversight, all of the other Board members are currently independent directors who may meet in executive session without management present. In addition, each committee of the Board is comprised entirely of independent directors. No individual director has been designated as lead independent director. The Board believes that the combined role of Chairman and Chief Executive Officer, together with the Board composition of independent directors, is in the best interest of Company stockholders because it provides the appropriate balance between strategic development and independent oversight of management.

## **Risk Management**

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks more fully described in our annual and quarterly filings with the SEC, including risks relating to dependence on clients and suppliers, competition, product development, credit and liquidity, and other business risks. Management is responsible for the day-to-day management of risks we face, while our Board of Directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. The Board of Directors, together with its committees, provides company-wide oversight of our management and handling of risk. At meetings of the Board of Directors and its committees, directors receive regular updates from management regarding risk management. Outside of formal meetings, the Board, its committees and individual Board members have regular access to the executive officers of the Company and are often consulted by management in respect of Company operations.

## **Report of the Audit Committee for the Fiscal Year Ended December 31, 2009**

*The following is the report of the Audit Committee with respect to the Company's audited financial statements for the fiscal year ended December 31, 2009. The information contained in this report shall not be deemed to be soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the 1934 Securities Exchange Act, as amended, except to the extent that the Company specifically incorporates such information by reference in such filing.*

The Audit Committee of the Company's Board of Directors is comprised of three independent directors. The current members of the Audit Committee are Messrs. Reilly, Beatson and Jacobs.

Management is responsible for the Company's internal controls and the financial reporting process. The independent accountants (auditors) are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Audit Committee's responsibility is to monitor these processes. The Audit Committee does not itself prepare financial statements or perform audits, and its members are not auditors or certifiers of the Company's financial statements. The Audit Committee approved the appointment of the Company's auditors, Grant Thornton LLP for the fiscal year ended December 31, 2009.

In fulfilling its oversight responsibility of appointing and reviewing the services performed by the Company's independent auditors, the Audit Committee carefully reviews the policies and procedures for the engagement of the independent auditor, including the scope of the audit, audit fees, auditor independence matters and the extent to which the independent auditor may be retained to perform non-audit related services. The Audit Committee considered the independent auditors' provision of non-audit services in 2009 and determined that the provision of those services is compatible with and does not impair the auditors' independence.

The Audit Committee discussed with the Company's auditors the scope and plans for the independent audit. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee has reviewed and discussed with management and the auditors the Company's audited financial statements, including the auditor's judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Audit Committee also discussed with the auditors the matters required by Statement on Auditing Standards No. 61, as amended.

The Audit Committee has received the written disclosures and the letter from the Company's independent accountants required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and the Audit Committee discussed with the auditors their independence from the Company and its management.

Based on the Audit Committee's discussion with management and the auditors and the Audit Committee's review of the representations of management and the report of the auditors to the Audit Committee, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which was filed with the Securities and Exchange Commission.

James F. Reilly

David I. Beatson

Dr. Neil W. Jacobs

*Members of the Audit Committee*

## EXECUTIVE COMPENSATION

### Overview of Compensation Program

The Compensation Committee of the Board is responsible for establishing and implementing our compensation philosophy. The Compensation Committee believes that the total compensation paid to our executive officers should be and is fair, reasonable and competitive. Throughout this proxy statement, the individuals who served as our Chief Executive Officer and the other executive officers included in the Summary Compensation Table on page 15, are referred to as the Named Executive Officers.

### Compensation Philosophy and Objectives

The Compensation Committee believes that executive officer compensation be structured to provide competitive base salaries and benefits to attract and retain superior employees and to provide short- and long-term incentive compensation to incentivize executive officers to attain, and to reward executive officers for attaining, established financial goals that are consistent with increasing stockholder value. The Compensation Committee uses a combination of cash bonuses and retention based equity awards as key components in the short- and long-term incentive compensation arrangements for executive officers, including the Named Executive Officers.

The Compensation Committee's goal is to maintain compensation programs that are competitive within our industry and geographic market. Each year, the Compensation Committee reviews the executive compensation program with respect to the external competitiveness of the program, the linkage between executive compensation and the creation of stockholder value, and determines what changes, if any, are appropriate.

In determining the form and amount of compensation payable to Named Executive Officers, the Compensation Committee is guided by the following objectives and principles:

Compensation levels should be sufficiently competitive to attract and retain key executives. We aim to ensure that our executive compensation program attracts, motivates and retains high performance talent and rewards them for our achieving and maintaining a competitive position in our industry and geographic market. Total compensation (i.e. maximum achievable compensation) should increase with position and responsibility.

Compensation should relate directly to performance and incentive compensation should be a portion of total compensation. We aim to foster a pay-for-performance culture, with the bonus portion of total compensation being at risk. Accordingly, absent unusual circumstances, any bonus payable as part of total compensation should be tied to and vary with our financial, operational and strategic performance, as well as individual performance. Bonuses should not be granted if these goals and results are not achieved.

Long-term incentive compensation should align executives' interests with our stockholders. Awards of equity-based compensation encourage executives to focus on our long-term growth and prospects, and incentivize executives to manage the company from the perspective of stockholders with a meaningful stake in us, as well as to focus on long-term career orientation.

Our executive compensation program is designed to reward the achievement of goals regarding growth, productivity and profitability, including such goals as:

To assist the Company in achieving and surpassing its internal targets and budgets, including quarterly financial and operating targets.

To recruit, motivate and exhibit leadership that aligns employees' interests with that of our stockholders.

To develop business models and systems that seek out strategic opportunities, which benefit us and our stockholders.

To implement a culture of compliance and commitment to operate our business with the highest standards of professional conduct and compliance.



### **Compensation Committee Practices and Procedures**

The Compensation Committee determines and reviews the value and forms of compensation for the Named Executive Officers and other officers based on the Compensation Committee members' general knowledge and experience, as well as, if appropriate, commercially available compensation surveys prepared by third party firms or otherwise generally available.

The Compensation Committee is delegated all authority of the Board as may be required or advisable to fulfill the purposes of the Compensation Committee. The Compensation Committee meets as often as it deems necessary or appropriate.

### **Role of Executive Officers in Compensation Decisions**

The Compensation Committee makes all compensation decisions for all executive officers (which includes the Named Executive Officers). The Compensation Committee actively considers, and has the ultimate authority of approving, recommendations made by the Chief Executive Officer regarding all equity awards to our employees. Our Chief Executive Officer determines the non-equity compensation of management level employees who are not executive officers or officers.

The Chief Executive Officer annually reviews the performance of each executive officer (other than the Chief Executive Officer whose performance is reviewed by the Compensation Committee). Based on these annual reviews, the Chief Executive Officer makes recommendations to the Compensation Committee with respect to annual base salary adjustments and short- and long-term incentive compensation awards for such executive officers. The Compensation Committee then reviews these recommendations and exercises its discretion in whether to accept such recommendations or to modify such recommendations as it deems appropriate. The Compensation Committee annually reviews the performance of the Chief Executive Officer and determines the total compensation, including base salary, cash bonus and long-term equity compensation, for the Chief Executive Officer. The Chief Executive Officer does not participate in such determination.

### **Setting Executive Compensation**

Based on the foregoing compensation philosophy, the Compensation Committee has structured our annual, short- and long-term compensation to motivate executives to achieve the financial performance objectives we set and to incentivize the executives to achieve and exceed, and to reward the executives for achieving and exceeding, such objectives. To date, neither the Company nor the Compensation Committee has retained the services of consulting firms or similar third party advisors in connection with the establishment, structure or amount of executive compensation. The Compensation Committee does not believe that it is appropriate to establish compensation levels based exclusively or primarily on benchmarking to our publicly-traded peers.

### **2009 Executive Officer Compensation Components**

For the year ended December 31, 2009, the principal components of compensation for Named Executive Officers were:

base salary;

performance-based incentive compensation, including both short-term cash incentive compensation and long term equity incentive compensation;

retirement and other benefits; and

perquisites and other personal benefits.

**Base Salary**

We provide our Named Executive Officers and other employees with a base salary to compensate them for services rendered during the year. Base salary ranges for Named Executive Officers are determined for each executive officer based on various factors considered by the Compensation Committee, including his or her position and level of responsibility and his or her actual performance during the preceding year. Base salaries for each year are typically evaluated annually in the first quarter of such year. Merit-based increases to base salaries for executive officers are based on the Compensation Committee's assessment of various factors, including the individual's performance during the preceding year and base salary history.

**Performance-Based Incentive Compensation**

Our 2005 Employee Stock and Incentive Plan provides the Compensation Committee with the flexibility to design cash- and stock-based incentive compensation programs to promote performance and the achievement of our goals and objectives by executive officers and other key employees by allowing them to participate in our long-term growth and profitability. The Compensation Committee believes that providing performance-based incentive compensation is necessary to attract and retain superior executive talent and to align the financial interests of executive officers with those of our stockholders. A portion of each executive officer's potential aggregate compensation is in the form of incentive compensation. There are two types of performance-based incentive compensation used by the Compensation Committee. The first type is short-term incentive compensation in the form of a performance based cash award. The second type is long-term incentive compensation in the form of grants of stock options, restricted stock or restricted stock units.

For fiscal year 2009, the Compensation Committee adopted a performance based cash award plan (the 2009 Bonus Plan) pursuant to our 2005 Employee Stock and Incentive Plan. Under the terms of the 2009 Bonus Plan, performance based cash awards were eligible to be awarded to the Chief Executive Officer, Named Executive Officers and other executive officers, officers and senior management based on, and subject to, the quarterly achievement of a specified performance goal. The performance goal was for the Company to exceed, on an individual quarterly basis, the corresponding projected quarterly earnings before interest, taxes, depreciation and amortization (EBITDA) contained in the Company's annual budget.

The maximum aggregate amount to be awarded for any quarter under the 2009 Bonus Plan was equal to the sum of the following: (i) the amount of Excess EBITDA up to \$50,000, plus (ii) if the Excess EBITDA exceeded \$50,000, the amount of such excess, up to the Cumulative Recapture Pool, plus (iii) if the amount of Excess EBITDA exceeded the amounts determined under the preceding clauses (i) and (ii), an amount equal to ten percent (10%) of such excess.

Excess EBITDA means, for any quarter, the amount by which the EBITDA for such quarter exceeded the budgeted EBITDA for such quarter; Cumulative Recapture Pool means, as of any date, (i) \$50,000 for each completed Eligible Quarter prior to such date, minus (ii) the aggregate amount of awards issued under the 2009 Bonus Plan as of such date; and Eligible Quarter means a quarter in which the Company's EBITDA was not less than 80% of the budgeted EBITDA.

During fiscal year 2009, no performance based cash awards were granted under the 2009 Bonus Plan.

Long-term incentive compensation for each executive officer consists of awards of stock options based on the executive officer's level and scope of responsibility. The Compensation Committee is responsible for the granting of all equity-based compensation, including the award dates for each grant, which is determined in its discretion. Stock options typically vest over a three-year period in quarterly installments. An important purpose of the granting of stock options is to retain executive talent and incentivize the executive team to increase stockholder value. During 2009 the Committee approved the issuance of a total of 163,500 stock options to all executive officers and officers (including the Named Executive Officers, other than the Chief Executive Officer) and the issuance of 28,250 stock options to the Chief Executive Officer. The grant of options to the Company's executive officers and officers, including the Named Executive Officers, was approximately 51% of the total options granted by the Company during 2009.

For fiscal year 2010, the Compensation Committee adopted a 2010 management bonus (the 2010 Bonus Plan) plan pursuant to our 2005 Employee Stock and Incentive Plan. Under the terms of the 2010 Bonus Plan, performance based cash awards, if any, will be awarded to the Chief Executive Officer and other executive officers, officers and

senior management based on, and subject to, the quarterly achievement of a specified performance goal. The performance goal shall be for the Company to exceed, on an individual quarterly basis, the corresponding projected quarterly adjusted earnings before interest, taxes, depreciation, amortization, stock based compensation, and impairment charges contained in the Company's 2010 annual budget (or, in case of a budgeted operating loss, to reduce the operating loss below the budgeted operating loss) ( Adjusted EBITDA ).

The maximum aggregate amount to be awarded for any quarter shall be equal to the sum of the following: (i) fifty percent (50%) of the first Two Hundred Thousand Dollars (\$200,000.00) in amount by which the Adjusted EBITDA for such quarter exceeded the budgeted Adjusted EBITDA for such quarter (the Excess EBITDA ) up to a maximum of One Hundred Thousand Dollars (\$100,000.000), plus (ii) if the amount of Excess EBITDA for such quarter exceeds Two Hundred Thousand Dollars (\$200,000.00), twenty percent (20%) of the amount of such excess, provided, however, the total bonus amount under clauses (i) and (ii) for each quarter shall not exceed Two Hundred Thousand Dollars (\$200,000.00).

Following the end of each quarter, the Committee will grant performance based cash awards in an aggregate amount to be determined by it, but not to exceed the above limitations, to the Chief Executive Officer and other executive officers, officers and senior management based on the Committee's determination of the relative contribution of each such person. The adoption of the 2010 Bonus Plan does not restrict the ability of the Compensation Committee to award discretionary bonuses for any quarter in which the performance goal was not achieved.

#### ***Retirement and Other Benefits***

Executive officers are eligible to participate in our 401(k) plan and other benefit programs as described below. The Compensation Committee reviews the overall cost to us of these various programs generally on an annual basis or when changes are proposed. The Compensation Committee believes that the benefits provided by these programs have been important factors in attracting and retaining the overall executive officer group, including the Named Executive Officers.

Our 401(k) plan provided for employer matching funds of the employee contribution. During 2009, the employer match portion was suspended and has not yet been reinstated. We do not provide any other retirement benefits or tax-qualified deferred compensation plans or programs for our executive officers.

Executive officers also receive benefit of life insurance policies, which provide coverage in varying amounts up to \$3.0 million.

Executive officers are also entitled to participate in the various other group health, term life, employee stock purchase, and similar benefit plans available to all of our employees and on the same terms as such employees.

#### ***Perquisites and Other Personal Benefits***

We provide Named Executive Officers with perquisites and other personal benefits that we and the Compensation Committee believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions.

#### ***Tax and Accounting Implications***

##### ***Deductibility of Executive Compensation***

As part of its role, the Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Code, which provides that we may not deduct compensation of more than \$1 million that is paid to certain individuals, subject to certain exceptions. We believe that compensation paid under our Plan is generally fully deductible for federal income tax purposes. However, the Compensation Committee may approve compensation that will not meet these requirements in order to ensure competitive levels of total compensation for its executive officers.

**SUMMARY COMPENSATION TABLE**

The following table sets forth the compensation paid or accrued by the Company to the Company's Chief Executive Officer and to each of the two most highly compensated executive officers of the Company for services rendered to the Company during the two fiscal years ended December 31, 2009:

Name and Principle Position	Period	Salary (1)	Option Awards (2)	Non-Equity Incentive Compensation		Total
				Plan (3)	All Other Compensation	
Mark C. Layton Chairman, President, Chief Executive Officer	2009	\$567,299	\$29,150	\$	\$33,352(4)	\$629,801
	2008	589,621	26,082	125,000	41,468	782,171
Michael C. Willoughby Executive Vice President Chief Information Officer	2009	\$344,392	\$29,150	\$	\$21,325(5)	\$394,867
	2008	355,384	26,082	125,000	24,445	530,911
Thomas J. Madden Executive Vice President Chief Financial Officer	2009	\$320,679	\$29,150	\$	\$34,304(6)	\$384,133
	2008	331,724	26,082	125,000	33,756	516,562

- (1) Salary represents base salary earnings
- (2) Options granted have a ten year term and generally vest quarterly over three years of continuous service after the date of grant. The amounts reported in this column represent the aggregate grant date fair value for stock options granted in each respective year, as calculated under ASC Topic 718. The assumptions

made in calculating the grant date fair value amounts for these stock options are summarized in Note 5 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2009. The amounts in this column do not necessarily correspond to the actual economic value that may be realized by the Named Executive Officers from the options.

- (3) Represents performance based cash awards paid under the Company's 2005 Employee Stock and Incentive Plan.
- (4) Represents Other Compensation of \$10,644 and Perquisites of \$22,708. Other Compensation represents life insurance

premiums paid  
by the Company  
for the benefit  
of the Named  
Executive  
Officer.

Perquisites  
represent the  
sum of personal  
use of  
automobile  
expenses, club  
dues and  
memberships  
and income tax  
preparation.

- (5) Represents  
Other  
Compensation  
of \$2,484 and  
Perquisites of  
\$18,841. Other  
Compensation  
represents the  
life insurance  
premiums paid  
by the Company  
for the benefit  
of the Named  
Executive  
Officer.  
Perquisites  
represent the  
sum of personal  
use of  
automobile  
expenses.

- (6) Represents  
Other  
Compensation  
of \$2,539 and  
Perquisites of  
\$31,765. Other  
Compensation  
represents the  
life insurance  
premiums paid  
by the Company  
for the benefit

of the Named  
Executive  
Officer.  
Perquisites  
represent the  
sum of personal  
use of  
automobile  
expenses and  
club dues and  
memberships.

## OUTSTANDING EQUITY AWARDS AT 2009 FISCAL YEAR END

Name	Grant Date	Option Awards			
		Number of Securities Underlying Unexercised Options (# Exercisable)	Number of Securities Underlying Unexercised Options (1) (# Unexercisable)	Option Exercise Price (\$)	Option Expiration Date
Mark C. Layton	8/15/2000	10,638		\$ 9.02	8/14/2010
	12/5/2001	126,395		\$ 4.28	12/4/2011
	4/11/2003	13,192		\$ 1.83	4/10/2013
	3/29/2004	9,149		\$ 7.57	3/28/2014
	4/5/2005	7,660		\$12.08	4/4/2015
	5/16/2007	3,723	745	\$ 4.42	5/15/2017
	5/20/2008	4,362	4,361	\$ 4.14	5/19/2018
	5/27/2009	4,708	23,542	\$ 1.46	5/26/2019
Michael C. Willoughby	8/15/2000	7,447		\$ 9.02	8/14/2010
	1/25/2002	8,510		\$ 3.95	1/24/2012
	4/11/2003	13,192		\$ 1.83	4/10/2013
	3/29/2004	9,149		\$ 7.57	3/28/2014
	4/5/2005	7,660		\$12.08	4/4/2015
	5/16/2007	7,093	1,418	\$ 4.42	5/15/2017
	5/20/2008	4,362	4,361	\$ 4.14	5/19/2018
	5/27/2009	4,708	23,542	\$ 1.46	5/26/2019
Thomas J. Madden	8/15/2000	7,447		\$ 9.02	8/14/2010
	12/5/2001	73,335		\$ 4.28	12/4/2011
	1/25/2002	3,191		\$ 3.95	1/24/2012
	4/11/2003	13,192		\$ 1.83	4/10/2013
	3/29/2004	9,149		\$ 7.57	3/28/2014
	4/5/2005	7,660		\$12.08	4/4/2015
	5/16/2007	3,546	709	\$ 4.42	5/15/2017
	5/20/2008	4,362	4,361	\$ 4.14	5/19/2018
	5/27/2009	4,708	23,542	\$ 1.46	5/26/2019

(1) The Options Awards listed above are generally subject to a quarterly vesting schedule over a three-year period commencing on



the date of  
grant.

**EMPLOYMENT, CHANGE OF CONTROL AND TERMINATION ARRANGEMENTS FOR EXECUTIVES**

The Company and the named executive officers have entered into Change in Control and Severance Agreements. Under these agreements, and in consideration of certain commitments of the officer to continue employment, upon the occurrence of a change in control, all unvested options held by the officer immediately vest and become exercisable. During the two year period following a change in control (whenever occurring), if the employment of the officer is terminated (other than for cause, death, disability or retirement), or if there is a material adverse change in the officer's responsibilities, compensation or benefits to which the officer does not consent, then, in each case, the officer is entitled to receive from the Company (1) all salary and bonus amounts accrued through the date of termination, (2) a severance payment equal to twice the officer's salary and bonus amount (which is defined as the greater of (i) the highest annual incentive bonus earned by the executive during the last three completed fiscal years or (ii) the executive's then target bonus, if any) and (3) continuation for two years of all employee benefits (unless otherwise provided by a subsequent employer). If applicable, the officer is also entitled to receive an additional payment to compensate the officer for any additional excise tax liability arising by reason of the receipt of such severance or bonus payment. The agreement terminates upon the voluntary resignation or termination of employment by the officer.

The Company and the named executive officers have also entered into Executive Severance Agreements. Under these agreements, and in consideration for, among other things, the agreement by the executive to be bound by a restrictive covenant, in the event of the termination of the employment of the executive other than for cause (including a material adverse change in the officer's responsibilities or the failure to re-nominate to the Board of Directors any executive also serving on the Board), the executive is entitled to a severance payment, based on the executive's years of service, up to a maximum of twice the executive's salary and the bonus, if any, that the executive would have received for such fiscal year (based upon the executive's targeted bonus amount and the Company's actual results for such fiscal

year), payable in monthly installments over a period not to exceed two years (based on the executive's years of service). In addition, in the event of termination without cause, the executive is entitled to a continuation of benefits and to the accelerated vesting of all options then held by the executive. The severance payment and benefits are reduced by any compensation or benefits received by the executive from any subsequent employer.

Effective as of December 31, 2008, the Company and certain of its executive officers entered into an amendment to the existing Executive Severance Agreements and Change in Control Severance Agreements between the Company and such persons. The primary purpose of such amendment was to modify such agreements so that they conform to Section 409A of the Internal Revenue Code. In addition, the amendment to the Executive Severance Agreement modified the calculation of the severance amount thereunder so that it is based on the highest annual rate of base salary during the 12-month period immediately prior to the qualifying termination.

The following table summarizes information with respect to equity compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2009. For additional information about our equity compensation plans, see note 5 to our financial statements in Item 8 of our 2009 Annual Report on Form 10-K:

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options and warrants</b>	<b>Weighted-average exercise price of outstanding options and warrants</b>	<b>Number of securities remaining available for future issuance</b>
Equity compensation plans approved by security holders	1,666,258	\$ 4.77	1,297,965
Equity compensation plans not approved by security holders	91,022	\$ 4.28	
<b>Total</b>	<b>1,757,280</b>		<b>1,297,965</b>

#### **2009 DIRECTOR COMPENSATION**

The following table sets forth the compensation earned by non-employee Directors for their service on the Board of Directors and its committees, as applicable, during the year ended December 31, 2009:

	<b>Fees Earned or Paid in Cash</b>	<b>Option Awards (1)</b>	<b>Total</b>
David I. Beatson	\$ 38,000	\$4,848(2)	\$42,848
James F. Reilly	38,000	4,848(3)	42,848
Dr. Neil W. Jacobs	38,000	4,848(4)	42,848
Timothy M. Murray	32,000	4,848(5)	36,848

(1) Represents aggregate grant date fair value computed in accordance with FASB ASC Topic 718.

- (2) Mr. Beatson had 28,724 options outstanding as of December 31, 2009.
- (3) Mr. Reilly had 26,596 options outstanding as of December 31, 2009.
- (4) Dr. Jacobs had 28,724 options outstanding as of December 31, 2009.
- (5) Mr. Murray had 41,739 options outstanding as of December 31, 2009.

In June 1999 the Company adopted a Non-Employee Director Stock Option and Retainer Plan (the Non-Employee Director Plan ). As of the date of the adoption of the Non-Employee Director Plan, each then non-employee director received an option to purchase 7,446 shares of common stock. As amended in June 2007, the Non-Employee Director Plan also provides for the issuance to each non-employee director of options to purchase 4,255 shares of common stock as of the date of each annual meeting of stockholders. During calendar year 2009, each non-employee director received an option to purchase 4,255 shares of common stock with an exercise price of \$1.60 per share. In addition, currently, non-employee directors receive an annual retainer fee of \$22,000, payable quarterly, a director meeting fee of \$2,500 for each board meeting attended and a committee meeting fee of \$1,500 for each quarterly Audit Committee meeting attended and also receive fees for participation in certain periodic conference calls. The Non-Employee Director Plan permits the payment of such non-employee director retainer fees in shares of Common Stock in lieu of cash.

All options to be issued to non-employee directors under the Non-Employee Director 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 the annual meeting upon which such option is granted. All options have a ten-year term and are subject to a one-year vesting schedule.

Generally, unless the Non-Employee Director 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 structure or capitalization affecting the Company's common stock, the Non-Employee Director Plan administrator will make appropriate adjustments to the exercise price, number and kind of shares to be issued under the Non-Employee Director Plan and any outstanding options. The Board of Directors has the authority to amend, modify, suspend or terminate the Non-Employee Director Plan at any time.

Directors who are also employees of the Company or any of its subsidiaries receive no remuneration for serving as directors or Committee members.

### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of April 16, 2010, certain information regarding the beneficial ownership of the Company's Common Stock by (i) each person who is known to the Company to beneficially own more than 5% of the Common Stock, (ii) each of the Directors and executive officers of the Company individually and (iii) the Directors and executive officers of the Company as a group. The information contained in this table reflects beneficial ownership as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and, as such, also includes shares acquirable within 60 days. Unless otherwise indicated, the stockholders identified in this table have sole voting and investment power with respect to the shares owned of record by them.

Name and Address of Beneficial Owner	Number of Shares	Percent (1)
Austin W. Marxe and David M. Greenhouse (2) 527 Madison Avenue, Suite 2600 New York, NY 10022	1,716,297	17.3%
Lloyd I. Miller III (3)	692,012	7.0%
Provident Advisors, LLC (4)	538,869	5.4%
Mark C. Layton (5)	319,285	3.2%
Steven S. Graham (5)	193,931	1.9%
Thomas J. Madden (5)	160,399	1.6%
Cindy Almond (5)	71,198	*
Michael C. Willoughby (5)	74,370	*
Timothy M. Murray (5)	60,055	*
James F. Reilly (5)	44,980	*
Dr. Neil W. Jacobs (5)	33,045	*
David I. Beatson (5)	28,724	*
All directors and executive officers as a group (9 persons) (6)	985,987	9.2%

\* Represents less than 1%

(1) This table is based on 9,936,596 shares of Common Stock outstanding on

April 16, 2010.

- (2) Based on a February 12, 2010 Schedule 13G joint filing by Austin W. Marx ( Marx ) and David M. Greenhouse ( Greenhouse ). Marx and Greenhouse share sole voting and investment power over 295,700 common shares owned by Special Situations Cayman Fund, L.P., 1,012,048 common shares owned by Special Situations Fund III QP, L.P., 408,549 common shares owned by Special Situations Private Equity Fund, L.P.
- (3) Based on a February 9, 2010 Schedule 13G filing by Lloyd I. Miller III.
- (4) Based on a February 16, 2010 Schedule 13F filing by Provident

Advisors, LLC.

- (5) Includes the following outstanding options to purchase the specified number of shares of Common Stock, which are fully vested and exercisable:  
Mark C. Layton 186,734; Steven S. Graham 175,415; Thomas J. Madden 133,461; Cindy Almond 70,933; Michael C. Willoughby 69,701; Timothy M. Murray 41,739; James F. Reilly 26,596; Dr. Neil W. Jacobs 28,724 and David I. Beatson 28,724.
- (6) Includes outstanding options to purchase 762,027 shares of Common Stock, which are fully vested and exercisable.

**ITEM 2**  
**APPROVAL OF AMENDMENTS TO THE**  
**NON-EMPLOYEE DIRECTOR STOCK OPTION AND RETAINER PLAN**

At the Annual Meeting, stockholders are being asked to approve amendments to the Non-Employee Director Stock Option and Retainer Plan (as amended, the Director Plan ) to (i) increase the number of shares of Common Stock reserved for issuance thereunder by 75,000 shares and (ii) increase the number of shares subject to the annual option

grant to 10,000 shares.

### **General Information**

The Company established the Director Plan to further the growth, development and financial success of the Company by providing incentives to its non-employee Directors by assisting them to become owners of the Company's Common Stock and thus to benefit directly from its growth, development and financial success, and to enable the Company to obtain and retain the services of qualified non-employee Directors in order to contribute to the long-range success of the Company by providing and offering them an opportunity to become owners of the Company's Common Stock.

The Company currently maintains the Director Plan under which stock options for an aggregate of approximately 91,500 shares of the Company's common stock were outstanding as of April 16, 2010, with a weighted average exercise price of \$5.20 per share, and approximately 64,150 shares of common stock are available for future awards. If the stockholders approve the proposed amendment to the Director Plan, the number of shares of common stock available for future equity grants to non-employee directors will be increased by 75,000 to approximately 139,150.

The Director Plan provides for the grant of stock options to members of our Board of Directors who are not employees of the Company. Under the Director Plan, each non-employee Director is automatically granted an option to purchase 4,255 shares on the date of the Company's annual meeting, provided that such Director shall have attended at least 75% of the meetings of the Board (which may include committee meetings) during the most recent completed fiscal year prior to such annual meeting (or such shorter period of time as such Director held office during such fiscal year). If the stockholders approve the proposed amendment to the Director Plan, the annual option granted to each non-employee Director will increase to 10,000 shares.

The Board of Directors believes it is in the best interests of the Company and its stockholders to amend the Director Plan to increase the number of shares available for issuance by an additional 75,000 shares and to increase the annual option granted to each non-employee Director to 10,000 shares to further the purposes of the Director Plan.

### **Description of the Director Plan**

A summary of the Director Plan, as amended by the amendments described above, is set forth below. This summary is qualified in its entirety by the full text of the Director Plan, which is attached to this proxy statement as **Appendix A**.

*Options and Retainer.* The Director Plan provides for the grant of stock options to members of our Board of Directors who are not employees of the Company. Currently, we have four non-employee Directors. Under the Director Plan, each non-employee Director is automatically granted an option to purchase 10,000 shares on the date of the Company's annual meeting, provided that such Director shall have attended at least 75% of the meetings of the Board (which may include committee meetings) during the most recent completed fiscal year prior to such annual meeting (or such shorter period of time as such Director held office during such fiscal year). Options granted under the Director Plan will not constitute incentive stock options.



The exercise price per share of common stock that may be purchased under an option is the fair market value of a share of our common stock on the date the option is granted.

To the extent the Board approves the payment of annual or periodic retainer fees to non-employee directors, the Director Plan permits the payment of such retainer fees in shares of Common Stock in lieu of cash.

*Term of Options.* Generally, options granted under the Director Plan become exercisable one year after the date of grant and expire after ten years. If a person ceases to be a Director, other than for death or disability, all of the person's options may only be exercised, if at all, during the three month period following termination. If a person ceases to be a Director by reason of death or disability, all of such person's options may be exercised, if at all, during the one year period following such termination.

The following table shows the total awards that current Directors receive each year under the Director Plan and would continue to receive each year under the Director Plan if the change is approved and the Directors continue to serve.

**NEW PLAN BENEFITS  
Non-Employee Director Stock Plan**

<b>Name</b>	<b>Number of Units</b>
David Beatson	10,000
Neil Jacobs	10,000
Timothy Murray	10,000
James Reilly	10,000
All Non-employee Directors as a group	40,000

*Shares Available.* As of April 16, 2010, a total of approximately 64,150 shares remained available under the Director Plan. In addition, the Director Plan provides that if any option expires or is cancelled or terminated before it is exercised, the shares that were subject to the option will become available under the Plan.

*Term of Director Plan.* The Plan will expire on December 31, 2017.

*Director Plan Administration.* The Compensation Committee of the Board of Directors administers the Director Plan. If any corporate event affecting our common stock occurs, including any merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, the Compensation Committee may make an appropriate and equitable adjustment in the number and kind of shares as to which all outstanding options shall be exercisable, to the end that after such event the optionee's proportionate interest shall be maintained as before the occurrence of such event.

*Other Provisions.* The Board of Directors may amend, alter or discontinue the Director Plan, but no amendment, alteration or discontinuation may be made that would impair rights under an option previously granted without the participant's consent, or that would increase the maximum number of shares available under the Director Plan without stockholder approval.

Options will be exercisable during the lifetime of the optionee by him or her only, and will not be transferable, except by will or the laws of descent and distribution.

*Tax Rules.* The following is a brief summary of certain federal income tax consequences of certain transactions under the Director Plan based on federal income tax laws in effect on the date hereof. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

In general: (i) no income will be recognized by an optionee at the time a nonqualified option is granted; (ii) at the time of exercise of a nonqualified option, ordinary income will be recognized by the optionee in an amount equal to the difference between the purchase price paid for the shares and the fair market value of the shares if they are

nonrestricted on the date of exercise; and (iii) at the time of sale of shares acquired pursuant to the exercise of a nonqualified option, any appreciation (or depreciation) in the value of the shares after the date of exercise will be treated as either short-term or long-term capital gain (or loss) depending on how long the shares have been held.

*Information about our equity compensation plans.* The table set forth above on page 17 summarizes information about our equity compensation plans as of December 31, 2009. For additional information about our equity compensation plans, see note 5 to our financial statements in Item 8 of our 2009 Annual Report on Form 10-K.

**Recommendation and Vote Required**

**The Board unanimously recommends that the stockholders vote FOR this Proposal.**

The affirmative vote of a majority of the votes entitled to be cast by the holders of the Company's Common Stock present or represented at the Annual Meeting and entitled to vote thereon is required to approve the amendments to the Director Plan.

**ITEM 3**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Company has appointed Grant Thornton LLP as the Company's independent auditors for the fiscal year ending December 31, 2010. Ratification of the appointment of Grant Thornton LLP as the Company's independent auditors will require the affirmative vote of a majority of the shares of Common Stock represented in person or by proxy and entitled to vote at the Annual Meeting. In the event stockholders do not ratify the appointment of Grant Thornton LLP as the Company's independent auditors, such appointment may be reconsidered by the Audit Committee and the Board of Directors. Representatives of Grant Thornton LLP will be present at the Annual Meeting to respond to appropriate questions and to make such statements as they may desire.

The Board of Directors of the Company recommends a vote FOR ratification of Grant Thornton LLP as the Company's independent auditors for the fiscal year ending December 31, 2010.

**Fees billed to the Company by Grant Thornton LLP for the years 2008 and 2009**

The following table sets forth (i) the aggregate fees billed by Grant Thornton LLP relating to the audit of the 2008 and 2009 consolidated financial statements and (ii) the fees for other professional services billed by Grant Thornton LLP in connection with services rendered during the previous two fiscal years.

Fee Type	2008	2009
Audit fees (a)	\$423,000	\$474,000
Audit-related fees (b)	64,000	66,000
Tax fees (c)		7,000
All other fees		

(a) Includes fees for professional services rendered in connection with the audit of the annual financial statements, reviews of the quarterly financial statements, fees paid for the audit of the Company's subsidiary,

Supplies  
Distributors, to  
satisfy  
requirements of  
its senior debt  
agreements and  
internal control  
review.

- (b) Consists of  
aggregate fees  
billed for  
assurance  
services  
provided in  
connection with  
reports on  
certain internal  
controls under  
Statement of  
Auditing  
Standards  
No. 70.

- (c) Consists of fees  
billed related to  
conducting a tax  
study.

All of the fees listed in the chart above were pre-approved by the Audit Committee, which concluded that the provisions of such services by Grant Thornton LLP was compatible with the maintenance of that firm's independence in the conduct of its audit functions.

**Policy on Audit Committee Pre Approval of Audit and Permissible Non Audit Services of Independent Registered Public Accountants**

The Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent auditors. These services may include audit services, audit related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case by case basis. During 2008 and 2009, all audit, non-audit and tax services provided by Grant Thornton LLP were pre-approved by the Audit Committee in accordance with this policy.

**GENERAL INFORMATION**

**Voting Procedures**

All matters specified in this Proxy Statement that are to be voted on at the Annual Meeting will be by written ballot. One or more inspectors of election will be appointed, among other things, to determine the number of shares outstanding and the voting power of each, the shares represented at the Annual Meeting, the existence of a quorum and the authenticity, validity and effect of proxies, to receive votes or ballots, to hear and determine all challenges and questions in any way arising in connection with the right to vote, to count and tabulate all votes and to determine the result.

**Admission to Annual Meeting**

Attendance at the Annual Meeting is limited to stockholders. Admission to the meeting will be on a first-come, first-served basis. Registration will begin at 9:30 a.m. and each stockholder may be asked to present valid picture identification such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

**Stockholder Proposals for the 2011 Annual Meeting**

A stockholder desiring to submit an otherwise eligible proposal for inclusion in the Company's proxy statement for the 2011 annual meeting of stockholders of the Company must deliver the proposal so that it is received by the Company no later than 90 days prior to the anniversary of the date of this Proxy Statement. The Company requests that all such proposals be addressed to the Company's Secretary at the Company's principal executive offices, 500 North Central Expressway, Suite 500, Plano, Texas 75074, and mailed by certified mail, return-receipt requested.

**Compliance with Certain Reporting Obligations**

Section 16(a) of the Exchange Act requires the Company's executive officers, directors and controlling stockholders to file initial reports of ownership and reports of changes of ownership of the Company's Common Stock with the Securities and Exchange Commission and the Company. To the Company's knowledge, all reports required to be so filed were filed in accordance with the provisions of said Section 16(a).

**Financial and Other Information**

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 is being sent to stockholders of record as of the Record Date together with this Proxy Statement.

**OTHER MATTERS**

The Board of Directors knows of no matters other than those described in this Proxy Statement that are likely to come before the Annual Meeting. If any other matters properly come before the Annual Meeting, or any adjournment thereof, the persons named in the accompanying form of proxy intend to vote the proxies in accordance with their best judgment.

By Order of the Board of Directors,  
Cindy Almond  
*Secretary*  
Plano, Texas  
April 30, 2010

**EXHIBIT A**

**NON-EMPLOYEE DIRECTOR STOCK OPTION AND RETAINER PLAN  
OF  
PFSWEB, INC.**

WHEREAS, PFSweb, Inc., a Delaware corporation (the "Company") has adopted that certain 1999 Non-Employee Director Stock Option and Retainer Plan (as amended to date, the "Plan"); and

WHEREAS, subject to the requisite approval of the Company's stockholders at the Company's 2010 Annual Meeting of Stockholders, the Company has authorized and adopted certain amendments to the Plan;

NOW, THEREFORE, in order to implement and effectuate said amendments, the Plan, as so amended, shall read as follows:

PFSweb, Inc., a corporation organized under the laws of the State of Delaware, hereby adopts this Non-Employee Director Stock Option and Retainer Plan. The purposes of this Plan are as follows:

(1) To further the growth, development and financial success of the Company by providing incentives to its non-employee Directors by assisting them to become owners of the Company's Common Stock and thus to benefit directly from its growth, development and financial success.

(2) To enable the Company to obtain and retain the services of qualified non-employee Directors in order to contribute to the long-range success of the Company by providing and offering them an opportunity to become owners of the Company's Common Stock.

**ARTICLE I  
DEFINITIONS**

Whenever the following terms are used in this Plan, they shall have the meaning specified below unless the context clearly indicates to the contrary. The masculine pronoun shall include the feminine and neuter and the singular shall include the plural, where the context so indicates.

**Section 1.1 Board**

Board shall mean the Board of Directors of the Company.

**Section 1.2 Code**

Code shall mean the Internal Revenue Code of 1986, as amended.

**Section 1.3 Committee**

Committee shall mean the Committee appointed by the Board, as provided in Section 6.1.

**Section 1.4 Company**

Company shall mean PFSweb, Inc., a Delaware corporation.

**Section 1.5 Director**

Director shall mean a member of the Board who is not an Employee.

**Section 1.6 Effective Date**

Effective Date shall mean July 1, 1999.

Section 1.7 Employee

Employee shall mean any employee (as defined in accordance with the regulations and revenue rulings then applicable under Section 3401(c) of the Code) of the Company, or of any corporation which is then a Subsidiary.

Section 1.8 Exchange Act

Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

Section 1.9 Non-Qualified Option

Non-Qualified Option shall mean an Option which is not an incentive stock option and is not qualified under Section 422 of the Code.

Section 1.10 Officer

Officer shall mean an officer of the Company, as defined in Rule 16a-1(f) under the Exchange Act, as such Rule may be amended in the future.

Section 1.11 Option

Option shall mean an option to purchase Common Stock of the Company granted under the Plan.

Section 1.12 Optionee

Optionee shall mean a Director to whom an Option is granted under the Plan.

Section 1.13 Parent Corporation

Parent Corporation shall mean any corporation in an unbroken chain of corporations ending with the Company if each of the corporations other than the Company then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.14 Plan

Plan shall mean this Non-Employee Director Stock Option and Retainer Plan of PFSweb, Inc.

Section 1.15 Retainer

Retainer shall mean the annual cash retainer payable to each Director for services as a member of the Board and any committee or committees of the Board.

Section 1.16 Rule 16b-3

Rule 16b-3 shall mean that certain Rule 16b-3 under the Exchange Act, as such Rule may be amended in the future.

Section 1.17 Secretary

Secretary shall mean the Secretary of the Company.

Section 1.18 Securities Act

Securities Act shall mean the Securities Act of 1933, as amended.

Section 1.19 Shares

Shares shall mean shares of the Company's Common Stock.

Section 1.20 Subsidiary

Subsidiary shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Section 1.21 Termination

Termination shall mean the time when the Director no longer serves as a member of the Board, including, but not by way of limitation, a termination by resignation, discharge, death or retirement.

ARTICLE II

SHARES SUBJECT TO PLAN

Section 2.1 Shares Subject to Plan

The Shares of stock subject to this Plan shall be shares of the Company's Common Stock. The aggregate number of such Shares which may be issued pursuant to this Plan shall be 139,150.

Section 2.2 Unexercised Options

If any Option expires or is canceled without having been fully exercised, the number of Shares subject to such Option but as to which such Option was not exercised prior to its expiration or cancellation, may again be optioned hereunder, subject to the limitations of Section 2.1.

Section 2.3 Changes in Company's Shares

In the event that the outstanding Shares of Common Stock of the Company are hereafter changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, or in the event of any other capital transaction involving the outstanding shares of Common Stock of the Company as the Committee shall determine in its sole discretion, whether by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, appropriate adjustments shall be made by the Committee in the number and kind of Shares which may be issued hereunder, including adjustment to the number, exercise price and kind of shares for the purchase of which Options may be granted, and further including adjustments of the limitations in Section 2.1 on the maximum number and kind of shares which may be issued hereunder and adjustments to the number of Options set forth in Section 3.5 below.

ARTICLE III

RETAINER FEES AND GRANTING OF OPTIONS

Section 3.1 Payment of Retainer

(a) Each Director may elect under the Plan to receive payment of any Retainer (in such installments as such Retainer shall be payable) in Shares, in lieu of cash, by submitting a written election (the Notice of Election) to the Company. The Notice of Election shall become effective six months following the date of the Notice of Election or such earlier date as may be permitted under Rule 16b-3 (the Election Effective Date) and, from and after the Election Effective Date, all Retainers payable to the electing Director (whether in installments or otherwise) shall be payable in Shares in the manner set forth herein.



(b) Subject to the foregoing, each Notice of Election shall become effective on its Election Effective Date and shall continue in effect until revoked by the electing Director in a written notice of revocation (the Notice of Revocation ) delivered to the Company; provided, however, that no Notice of Revocation shall become effective until six months following the date of the Notice of Revocation or such earlier date as may be permitted under Rule 16b-3.

(c) If no Notice of Election is submitted to the Company, and prior to any Election Effective Date, all Retainers shall be payable in cash.

#### Section 3.2 Number of Shares

The number of Shares to be issued to each Director electing to have his or her Retainer paid in Shares shall be determined by dividing the dollar amount of the then payable Retainer by the fair market value of the Shares as of the most recent trading day immediately prior to the date the Retainer is otherwise payable. No fractional Shares shall be issued and any fractional Share shall be rounded to the nearest whole Share. Subject to the terms and provisions hereof, all Shares shall be issued in certificate form in the name of the Director (or any designee) as promptly as practicable following the date of payment. For purposes of this Section, fair market value shall be determined in accordance with Section 4.2(b) below.

#### Section 3.3 Eligibility

Each Director shall be granted Options in accordance with the provisions set forth herein.

#### Section 3.4 Non-Qualification of Options

Each Option shall be a Non-Qualified Option.

#### Section 3.5 Granting of Options

Each person who is a Director immediately following each annual meeting of stockholders of the Company shall receive an Option to purchase 10,000 Shares as of the date of such annual meeting; provided that such Director shall have attended at least 75% of the meetings of the Board (which may include committee meetings) during the most recent completed fiscal year prior to such annual meeting (or such shorter period of time as such Director held office during such fiscal year).

### ARTICLE IV TERMS OF OPTIONS

#### Section 4.1 Option Agreement

Each Option shall be evidenced by a written Stock Option Agreement, which shall be executed by the Optionee and an authorized Officer of the Company and which shall contain such terms and conditions as are consistent with the Plan.

#### Section 4.2 Option Price

(a) The price of the Shares subject to each Option shall be equal to 100% of the fair market value of such Shares on the date such Option is granted.

(b) For purposes of the Plan, the fair market value of a Share of the Company's Common Stock as of a given date shall be: (i) the closing price of a Share of the Company's Common Stock on the principal exchange on which Shares of the Company's Common Stock are then trading; or (ii) if such Common Stock is not traded on an exchange but is quoted on NASDAQ or a successor quotation system, (1) the last sales price (if the Company's Common Stock is then listed as a National Market Issue under the NASD National Market System) or (2) the mean between the closing representative bid and asked prices (in all other cases) for the Company's Common Stock, in each case, on such

date as reported by NASDAQ or such successor quotation system; or (iii) if such Common Stock is not publicly traded on an exchange and not quoted on NASDAQ or a successor quotation system, the mean between the closing bid and asked prices for the Company's Common Stock, on such date, as determined in good faith by the Committee; or (iv) if the Company's Common Stock is not publicly traded, the fair market value established by the Committee acting in good faith.

#### Section 4.3 Commencement of Exercisability

(a) No Option may be exercised in whole or in part during the six months after such Option is granted.

(b) Subject to the provisions hereof, each Option granted hereunder shall be subject to the following cumulative vesting schedule:

(i) Until the date which is one year from the date of grant, the Option shall not be vested and shall not be exercisable as to any of the shares subject thereto; and

(ii) From and after the date which is one year from the date of grant, the Option shall vest and be fully exercisable.

#### Section 4.4 Expiration of Options

No Option may be exercised to any extent after the first to occur of the following events:

(i) The expiration of ten years from the date the Option was granted; or

(ii) Except in the case of any Optionee who is disabled (within the meaning of Section 22(e)(3) of the Code), the expiration of three months from the date of the Optionee's Termination for any reason other than such Optionee's death; or

(iii) With respect to an Option held by an Optionee who is disabled (within the meaning of Section 22(e)(3) of the Code), the expiration of one year from the date of the Optionee's Termination for any reason other than such Optionee's death unless the Optionee dies within said one-year period; or

(iv) The expiration of one year from the date of the Optionee's death with respect to all Options held by such Optionee.

#### Section 4.5 Adjustments in Outstanding Options

In the event that the outstanding Shares of the stock subject to Options are changed into or exchanged for a different number or kind of shares of the Company or other securities of the Company, or in the event of any other capital transaction involving the outstanding shares of Common Stock of the Company as the Committee shall determine in its sole discretion, whether by reason of merger, consolidation, recapitalization, reclassification, stock split-up, stock dividend, combination of shares or otherwise, the Committee shall make an appropriate and equitable adjustment in the number and kind of shares as to which all outstanding Options, or portions thereof then unexercised, shall be exercisable, to the end that after such event the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in an outstanding Option shall be made without change in the total price applicable to the Option or the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in Option price per share. Any such adjustment made by the Committee shall be final and binding upon all Optionees, the Company and all other interested persons.

ARTICLE V  
EXERCISE OF OPTIONS

Section 5.1 Person Eligible to Exercise

During the lifetime of the Optionee, only such Optionee may exercise an Option (or any portion thereof) granted to him; provided, however, that, unless otherwise prohibited by Rule 16b-3, an Optionee may transfer all or any portion of an Option to his spouse or immediate family member or any trust for the benefit thereof or as the Committee may otherwise permit in its sole discretion. After the death of the Optionee, any exercisable portion of an Option may, prior to the time when such portion becomes unexercisable under the Plan, be exercised by his personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

Section 5.2 Partial Exercise

At any time and from time to time prior to the time when any exercisable Option or exercisable portion thereof becomes unexercisable under the Plan, such Option or portion thereof may be exercised in whole or in part; provided, however, that the Company shall not be required to issue fractional shares and the Committee may, by the terms of the Option, require any partial exercise to be with respect to a specified minimum number of shares.

Section 5.3 Manner of Exercise

An exercisable Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his office of all of the following prior to the time when such Option or such portion becomes unexercisable under the Plan or the applicable Stock Option Agreement:

(a) Notice in writing signed by the Optionee or other person then entitled to exercise such Option or portion, stating that such Option or portion is exercised, such notice complying with all applicable rules established by the Committee; and

(b) (i) Full payment (in cash or by check) for the Shares with respect to which such Option or portion is thereby exercised; or

(ii) Subject to the consent of the Committee, (A) Shares of the Company's Common Stock owned by the Optionee duly endorsed for transfer to the Company or (B) subject to the timing requirements of Section 5.4, Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option, with a fair market value (as determined under Section 4.2(b)) on the date of Option exercise equal to the aggregate Option price of the Shares with respect to which such Option or portion is thereby exercised; or

(iii) Any combination of the consideration provided in the foregoing subsections (i) and (ii); and

(c) The payment to the Company (or other employer corporation) of all amounts which it is required to withhold under federal, state or local law in connection with the exercise of the Option; provided, that, with the consent of the Committee, any combination of the following may be used to make all or part of such payment: (i) Shares of the Company's Common Stock owned by the Optionee duly endorsed for transfer or (ii) subject to the timing requirements of Section 5.4, Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option, valued in accordance with Section 4.2(b) at the date of Option exercise; and

(d) Such representations and documents as the Committee, in its absolute discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal or state securities laws or regulations. The Committee may, in its absolute discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on Share certificates and issuing stop-transfer orders to transfer agents and registrars; and

(e) In the event that the Option or portion thereof shall be exercised pursuant to Section 5.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option or portion thereof.

#### Section 5.4 Certain Timing Requirements

Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option may be used to satisfy the Option price or the tax withholding consequences of such exercise only with the consent of the Committee and (i) during the trading window period following the date of release of the quarterly or annual summary statement of sales and earnings of the Company as may be established by the Company for its senior executives from time to time or (ii) pursuant to an irrevocable written election by the Optionee to use Shares of the Company's Common Stock issuable to the Optionee upon exercise of the Option to pay all or part of the Option price or the withholding taxes made at least six months prior to the payment of such Option price or withholding taxes.

#### Section 5.5 Conditions to Issuance of Stock Certificates

The Shares of stock issuable and deliverable upon the exercise of an Option, or any portion thereof, may be either previously authorized but unissued Shares or issued Shares which have then been reacquired by the Company. The Company shall not be required to issue or deliver any certificate or certificates for Shares of stock issued in payment of any Retainer or purchased upon the exercise of any Option or portion thereof prior to the fulfillment of all of the following conditions:

- (a) The admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; and
- (b) The completion of any registration or other qualification of such Shares under any state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, if any such registration or qualification may be necessary or advisable; and
- (c) The obtaining of any approval or other clearance from any state or federal governmental agency which may be necessary or advisable; and
- (d) The payment to the Company (or other employer corporation) of all amounts which it is required to withhold under federal, state or local law in connection with the exercise of the Option; and
- (e) The lapse of such reasonable period of time following the exercise of the Option as the Secretary of the Company may establish from time to time for reasons of administrative convenience.

### ARTICLE VI ADMINISTRATION

#### Section 6.1 Committee

The Plan shall be administered by the Committee which shall consist of two or more members of the Board, as the Board may appoint from time to time; provided, however that, in the absence of such appointment, the Plan shall be administered by the Board (in which event the term Committee as used herein shall mean the Board); provided, further, however, that, notwithstanding the foregoing, the Plan shall be construed, interpreted, implemented and administered in a manner sufficient to comply with the provisions of Rule 16b-3, and, in particular, in order to provide that the members of the Committee shall at all times satisfy the requirements set forth therein.

#### Section 6.2 Duties and Powers of Committee

It shall be the duty of the Committee to conduct the general administration of the Plan in accordance with its provisions. The Committee shall have the power to interpret the Plan and the Options and to adopt such rules for

the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules.

#### Section 6.3 Majority Rule

The Committee shall act by a majority of its members in office. The Committee may act either by vote at a meeting or by a memorandum or other written instrument signed by a majority of the Committee.

#### Section 6.4 Compensation; Professional Assistance; Good Faith Actions

Members of the Committee shall receive such compensation for their services as members as may be determined by the Board. All expenses and liabilities incurred by members of the Committee in connection with the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants, appraisers, brokers or other persons. The Committee, the Company and its Officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon all Optionees, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Options, and all members of the Committee shall be fully protected by the Company in respect to any such action, determination or interpretation.

### ARTICLE VII OTHER PROVISIONS

#### Section 7.1 Options Not Transferable

Except as set forth in Section 5.1 hereof, no Option or interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect; provided, however, that nothing in this Section 7.1 shall prevent transfers by will or by the applicable laws of descent and distribution.

#### Section 7.2 Amendment, Suspension or Termination of the Plan

The Plan may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee; provided, however, that no amendment or modification which requires shareholder approval under Rule 16b-3, if any, shall be effective in the absence of such approval. Neither the amendment, suspension nor termination of the Plan shall, without the consent of the holder of the Option, impair any rights or obligations under any Option theretofore granted. No Option may be granted during any period of suspension nor after termination of the Plan. The Plan shall terminate and no Option be granted under this Plan after December 31, 2017.

#### Section 7.3 Approval of Plan by Shareholder(s)

This Plan will be submitted for the approval of the Company's shareholder(s) within 12 months after the date of the Board's initial adoption of the Plan. No Options shall be granted prior to such shareholder approval. The Company shall take such actions with respect to the Plan as may be necessary to satisfy the requirements of Rule 16b-3(b).

#### Section 7.4 Effect of Plan Upon Other Option and Compensation Plans

The adoption of this Plan shall not affect any other compensation or incentive plans in effect for the Company, any Parent Corporation or any Subsidiary. Nothing in this Plan shall be construed to limit the right of the Company, any Parent Corporation or any Subsidiary to (a) establish any other forms of incentives or compensation for

employees and Directors of the Company, any Parent Corporation or any Subsidiary or (b) grant or assume options otherwise than under this Plan in connection with any proper corporate purpose, including, but not by way of limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, firm or association.

Section 7.5 Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of the Plan.

Section 7.6 Conformity to Securities Laws and Section 409A(d) of the Code

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including without limitation Rule 16b-3, as well as of Section 409A(d) of the Code. Notwithstanding anything herein to the contrary, the Plan shall be administered, and Options shall be granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and Options granted hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

**YOUR VOTE IS IMPORTANT. PLEASE VOTE TODAY.**  
**We encourage you to take advantage of Internet or telephone voting.**  
**Both are available 24 hours a day, 7 days a week.**

Internet and telephone voting is available through 11:59 PM Eastern Time the day prior to the shareholder meeting date.

**PFSWEB, INC.**

**INTERNET**

<http://www.proxyvoting.com/pfsw>

Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.

**OR**

**TELEPHONE**

**1-866-540-5760**

Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your proxy card.

To vote by mail, mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.

**Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.**

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**6 FOLD AND DETACH HERE 6**

Please mark x  
 your votes  
 as  
 indicated in  
 this example

	<b>FOR WITHHOLD</b>			<b>FOR AGAINST ABSTAIN</b>		
<b>Item 1. ELECTION OF DIRECTOR</b>	<input type="radio"/>	<input type="radio"/>	<b>Item 2.</b> To approve amendments to the Company's Non-Employee Director Stock Option and Retainer Plan	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Nominee: 01 Dr. Neil W. Jacobs			<b>Item 3.</b> Ratification of Appointment of Independent Auditors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**In their discretion, the proxies are authorized to vote upon such other business as may properly be presented at the meeting OR any adjournments or postponements thereof.**

Mark Here for  
 Address Change  
 or Comments  
**SEE REVERSE**

**NOTE: Please sign as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.**

**Signature**

**Signature**

**Date**





***You can now access your PFSweb, Inc. account online.***

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**Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Stockholders.** The Proxy Statement and the 2009 Annual Report to Stockholders are available at: <http://www.pfsweb.com/proxymaterials>

**6 FOLD AND DETACH HERE 6**

**PROXY**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**PFSweb, Inc.**

The undersigned hereby appoints Thomas J. Madden and Cindy Almond as proxies, with power to act without the other and with power of substitution, and hereby authorizes them to represent and vote, as designated on the other side, all the shares of stock of PFSweb, Inc. standing in the name of the undersigned with all powers that the undersigned would possess if present at the Annual Meeting of Stockholders of the Company to be held June 4, 2010 or any adjournment thereof.

**This Proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR EACH PROPOSAL.**

**Address Change/Comments  
(Mark the corresponding box on  
the reverse side)**

BNY MELLON SHAREOWNER SERVICES  
P.O. BOX 3550  
SOUTH HACKENSACK, NJ 07606-9250

**(Continued and to be marked, dated and signed, on the other side)**

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