

The loss of either of the top two suppliers or a combination of certain other suppliers could have a material adverse effect on the Company's business, results of operations and financial condition unless alternative products manufactured by others are available to the Company. In addition, although the Company believes that its relationships with suppliers are good, there can be no assurance that the Company's suppliers will continue to supply products on terms acceptable to the Company. Through distributor agreements with its suppliers, Pioneer-Standard is authorized to sell all or some of the suppliers' products. The authorization with each supplier is subject to specific terms and conditions regarding such items as product return privileges, price protection policies, purchase discounts and supplier incentive programs such as purchase incentives, sales volume incentives and cooperative advertising reimbursements. A substantial portion of the Company's advertising and marketing program expenses are reimbursed through cooperative advertising reimbursement programs. These cooperative advertising programs are at the discretion of the supplier. From time to time, suppliers may terminate the right of the Company to sell some or all of their products or change these terms and conditions or reduce or discontinue the incentives or programs offered. Any such termination or implementation of such changes could have a material negative impact on the Company's results of operations.

### ***Inventory***

The Company maintains certain levels of inventory in order to ensure that the lead times to its customers remain competitive. The majority of the products sold by the Company are purchased pursuant to distributor agreements, which generally provide for inventory return privileges by the Company upon cancellation of a distributor agreement. The distributor agreements also typically provide protection to the Company for product obsolescence and price erosion. Along with the Company's inventory management policies and practices, these provisions reduce the Company's risk of loss due to slow-moving inventory, supplier price reductions, product updates or obsolescence.

In some cases, the industry practices discussed above are not embodied in agreements and do not protect the Company in all cases from declines in inventory value. However, the Company believes that these practices provide a significant level of protection from such declines, although no assurance can be given that such practices will continue or that they will adequately protect Pioneer-Standard against declines in inventory value. In addition, the Company's results of operations depend in part on successful management of the challenges of rapidly changing technology.

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### ***Customers***

The Company serves customers in most major and secondary markets of North America. The Company's customer base includes VARs, which are typically privately held with annual sales of \$10 million to \$200 million, and corporate end-users, which range from medium to large corporations, as well as the public sector. A substantial amount of Pioneer-Standard's business, whether direct or through resellers, is in the mid-market customer segment, which is currently the fastest-growing segment in the industry. No single customer accounted for more than 10 percent of the Company's total sales during Fiscal 2003.

### ***Uneven sales patterns and seasonality***

The Company experiences a disproportionately large percentage of quarterly sales in the last month of the fiscal quarters. This uneven sales pattern makes the prediction of revenues, earnings and working capital for each quarterly financial period difficult and increases the risk of unanticipated variations in quarterly results and financial condition. In addition, the Company experiences a seasonal increase in sales during its third quarter ending in December. Third quarter sales were 32%, 29% and 30% of annual revenues for Fiscal 2003, 2002 and 2001, respectively. The Company believes that this sales pattern is industry-wide. Although the Company is unable to predict whether this uneven sales pattern will continue over the long term, the Company anticipates that this trend will remain the same in the foreseeable future.

### ***Backlog***

The Company historically has not had a significant backlog of orders. There was no significant backlog at March 31, 2003.

### ***Competition***

The distribution and reselling of enterprise computer systems products is competitive, primarily with respect to price, but also with respect to service and promptness of service. The Company faces competition with respect to developing and maintaining relationships with customers. The Company competes for customers with other