based on factors including an analysis of historical sales of products, the age of the inventory and return provisions provided by the distribution agreements. Actual amounts could be different from those estimated.

Investments The Company holds strategic marketable equity securities that are carried at fair value. Impairment of investment securities results in a charge to operations when a market decline below cost is deemed other than temporary. Management regularly reviews each investment security for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline, management's intent to hold the investment, and the financial condition of and specific prospects of the issuer. Pioneer-Standard also evaluates available information such as published financial reports and market research and analyzes cyclical trends within the industry segments in which the various companies operate to determine whether market declines should be considered other than temporary. When management's intent or the financial condition of the issuer changes, or trends in the industry shift dramatically, the Company considers the impairment other than temporary and records a charge to operations for the market decline.

Deferred Taxes The carrying value of the Company's deferred tax assets is dependent upon the Company's ability to generate sufficient future taxable income in certain tax jurisdictions. Should the Company determine that it would not be able to realize all or part of its deferred tax assets in the future, an adjustment to the deferred tax assets would be expensed in the period such determination was made. The Company presently records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount (including valuation allowance), an adjustment to the deferred tax asset would increase income in the period such determination was made.

Goodwill and Long-Lived Assets In assessing the recoverability of the Company's goodwill and other long-lived assets, significant assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets must be made, as well as the related estimated useful lives. If these estimates or their related assumptions change in the future as a result of changes in strategy and/or market conditions, the Company may be required to record impairment charges for these assets. For further information concerning the Company's calculation of impairment, see Notes 1 and 4 in the accompanying Consolidated Financial Statements.

Restructuring and Other Special Charges The Company has recorded a reserve in connection with reorganizing its ongoing business subsequent to its sale of IED. This reserve principally includes estimates related to employee separation costs, the consolidation and impairment of facilities and other assets deemed inconsistent with continuing operations. Actual amounts could be different from those estimated. Determination of the impairment of assets is discussed above in *Goodwill and Long-Lived Assets*. Facilities reserves are calculated using a probability-weighted present value of future minimum lease payments, offset by an estimate for future sublease rentals provided by external brokers. Present value is calculated using a risk-free Treasury rate with a maturity equivalent to the lease term.

Supplier Programs The Company receives funds from suppliers for price protection, product sales incentives and marketing and training programs, which are generally recorded, net of direct costs, as adjustments to cost of goods sold or operating expenses according to the nature of the program. The product sales incentives are generally based on a particular quarter's sales activity and are primarily formula-based. Some of these programs may extend over one or more quarterly reporting periods. The Company accrues supplier sales incentives and other supplier incentives as earned based on sales of qualifying products or as services are provided in accordance with the terms of the related program. Actual supplier sales incentives may vary based on volume or other sales achievement levels, which could result in an increase or reduction in the estimated amounts previously accrued, and can, at times, result in significant earnings fluctuations on a quarterly basis.

Stock-Based Compensation As permitted by SFAS No. 148, ''Accounting for Stock-Based Compensation — Transition and Disclosure,'' the Company continues to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed in Accounting Principles Board (''APB'') Opinion No. 25, ''Accounting for Stock Issued to Employees,'' whereby the options are granted at market price, and therefore no compensation costs are recognized, and the options are not recognized in the financial statements until they are exercised. However, the Company provides pro forma disclosures of net income (loss) and net income (loss) per share as if the fair-value method had been applied.

Recently issued accounting standards

In June 2001, the Financial Accounting Standards Board (''FASB'') issued SFAS No. 143, ''Accounting for Asset Retirement Obligations.'' In November 2002, the Emerging Issues Task Force reached a consensus on Issue