

To: Dick Williams
Fr: Dave Valentino
Date: May 30, 1991
Re: Discussion topics for Ingram meeting

Inventory and Sell Through

IMD has over 8000 units of DR DOS upgrade in stock and sell through has fallen over 50% since April. Current inventory on hand equates to approximately 12 weeks. We offered a \$1 million buy at \$39 last week to the buyers, their interest level was high at the time, but they were under the impression that they had about 8 weeks on hand. The past two weeks, sell through has continued to fall to 750 units per week, versus 1460 per week in April. Therefore, it was too much inventory to take on. Ingram has been buying about \$1 million per quarter with us since January, \$500,000 or so in the Fall (our Q1).

MS DOS 5.0 Impact

As soon as IMD and Merisel were allowed by Microsoft to take back orders on MS DOS 5.0, we were literally blown out of the water. IMD marketing staff recommended that we "stay quiet for 8 weeks or so". The problem for DRI is that we've focused all along on having a few strong players in the channel, rather than jeopardizing margins, profitability and channel integrity with multiple distributors. The result is that IMD is over 60% of our revenue and any lack of momentum on their part forces us to re-evaluate our channel strategy.

We value our partnership with IMD but need them to maintain their focus on us as a vendor, regardless of what our competitors are doing.

Industrial Distribution

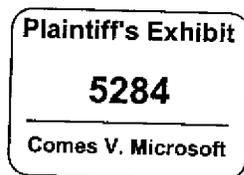
It may be appropriate for us to share with them the fact that we have a new competitive strategy in the channel to exploit OEM-like bundled sales opportunities with the 35% of the PCs that get shipped without an operating system. This is a market that MSDOS currently is not in. IMD and many other distributors sell PCs without any operating system. Many of those machines get sold at the street level WITH an operating system, but it was either grey market or full price product. In effect, we are authorizing the grey market with a clean, ethical way to play in the operating system market.

Future Programs:

In May, we had an AST bundle with DR DOS at Ingram. Almost 100 AST machines were sold with DR DOS. AST is very pleased with the results.

Basic MDF programs are in place moving forward, mostly other DRI product for June, but we need a more aggressive sales focus on the upgrade TODAY. Ironically, we were the "focused vendor" for May. The sales force was given incentives to sell our entire product line. This is because we are a profitable vendor, and were "climbing fast". When MS DOS sales activity commenced in mid-May, our focus disappeared.

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Discussion topics:

Buxton

Do they really value their relationship with Microsoft...even after MS pulled all the marketing dollars away from the distributors two years ago?

DRI is a more profitable vendor, our existing relationship with their staff is excellent.

What is a realistic expectation on the level of commitment DRI will get from JMD over the next 2-3 months in light of the other operating system vendors realizing that DRI did a smart thing by putting DR DOS into the channel? (ie, PC DOS & MS DOS are here, how important is DR DOS?)

MERISEL only

similar as above except:

Merisel took a wait and see attitude with us, but went crazy with MS DOS. Why are we second class citizens? Are they actually making any money blowing out MSDOS or are they stealing market share at the expense of profits?

Why are Merisel sales reps turning dealers that we referred to them into MS DOS sales? "...DR DOS, oh yeah we sell it, but you should wait for MS DOS..."

Could do well with Industrial Distribution.