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To: Joe Taglia

Fr: Dave Valentino

1-7-92

Re: Current Sell Through & Returns trends

Joe,

While we are committed to holding true to the \$5 million number this quarter, we need to be aware of the fact that sell through has flattened and returns are getting worse. According to Sue Nageotte, there are approximately 6500 call backs in backlog at Tech. Support and they will not be able to call at least 5000 of those at all. These are end users who are having a problem with DR DOS. That's why they called. Should we accrue for these units, or some portion thereof, to be additional returns under our money-back guarantee? 5000 units returned at a street price of \$75 equates to an additional \$375,000 hit.

November Returns, not counting stock balancing, were \$206,073

December returns, not counting stock balancing, were \$105,212. Last week's sell through reports showed that Software Resource also took back about 400 units from their dealers. Some dealers are threatening not to carry the product any more. There's still hope. Ingram is coming on very strong over the past few weeks, but perhaps at the expense of the other distributors.

The plan to save the quarter is to get as many Novell distributors in North and South America to buy in this month and reserve the 10% "Rebate fund" currently in the plan for end of month deals. Up side on the deals will exist if we can extend terms for the bigger accounts (Programmer's Shop, Ingram and Software Resource, specifically). They'll be willing to take more inventory if we offer 60-90 day terms on the inventory "that they don't really need right now". An example of this would be to offer Ingram a \$750,000 deal, \$250,000 net 30, \$250K net 60, balance net 90. I'll need a few more days to come up with the exact ("magic") number for each account.

Attached Sell Through shows 4.23 weeks in the channel with 4 weeks to go at a four week sell through average of 2842 units per week. At the end of January they will have less than 1 week on hand. If we add seven more weeks, for a total of 8 weeks on hand at the end of the quarter that equates to (7 weeks sold in * 2842 units * (54.45 less 10% for deals))= \$974,905 in additional net revenue. (The 10% for deals is the rebate level currently accrued for). 12 weeks would be \$1,531,994 however Software Resource doesn't have the credit line to handle more than \$300,000. Therefore, it's safer to expect the 8 week level, then add \$200,000 from other accounts and upgrades (this data is from the three distributors only), then add \$700,000 from Novell and we barely make it to \$5 million. We're at \$3.1 million so far.

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Plaintiff's Exhibit

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Comes V. Microsoft

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