



AVASTOR SUPPLY BULLETIN

December 15, 2011

To our Valued Customers:

We have been keeping a close watch on the status of hard drive pricing and availability as I am sure you have been doing as well. We have been documenting several news articles and research papers to help build a clearer picture. Below we will discuss both the reasoning behind pricing increases and the outlook for availability.

PRICING:

As you know, pricing has increased dramatically over the last month and a half. Several of our distributor's customers have been asking why the pricing has gone up so much. The simple answer is supply and demand. But as we have found, the price increases started with the manufacturers. Speaking directly of Seagate:

"Other HDD makers will benefit, having their main assembly plants outside Thailand and now selling their devices at higher price and then much higher margin. "Gross margin as a percent of revenue is expected to be 150-300 basis points above the high-end of the company's long-term, targeted gross margin range of 22-26%," stated Seagate. For the December 2011 quarter, the company now expects unit shipments of 43 million units and revenue of \$2.8 billion to be compared to 51 million units and roughly the same total sales for the September quarter. And March 2012 quarter could be exceptional: "At least \$3.75 billion and gross margin as a percent of revenue is expected to be at least 300 basis points above the aforementioned targeted range of 22-26%." (StorageNewsletter.com, November 2011)

With their increased margins, the overall costs were passed down through all distribution chains. As a result we experienced an average of 150% increase in cost on bare drives that go into our products. At this point, we feel that pricing has become stable. Pricing will not start to drop until there is a surplus in inventory. When this happens, we will not be able to offer price protection. We will do our best to give you as much information on the matter and keep you informed about any changes we see coming.

SUPPLY:

So far we have been fortunate to keep a steady supply of product so that we experienced few back-orders for our customers. While progress is being made, a shortage still exists and will most likely exist for a couple of more quarters. January is expected to be the month with the most shortages. This is a result of a gap in the supply chain. We have been giving forecasts to our HDD vendors in an effort to secure stock for our Avastor customers. If you have any new business or opportunities, we ask that you bring this information to us so that we can work with you and, to ensure we will have enough stock for you.

In a news article released today, we have seen the first sign of good news in the supply chain:

"Benefiting from their crisis management capabilities, Western Digital and affected upstream HDD component makers are expected to restore 70% of their total capacity by March 2012, three months earlier than their original forecast.

Since the HDD hardware supply chain is recovering at a rather fast pace, Chien (*Digitimes*) estimates that global HDD supply in the second quarter of 2012 will reach 165 million units, up 18% on quarter with the shortage gap to be limited to within 5%. If the overall recovery

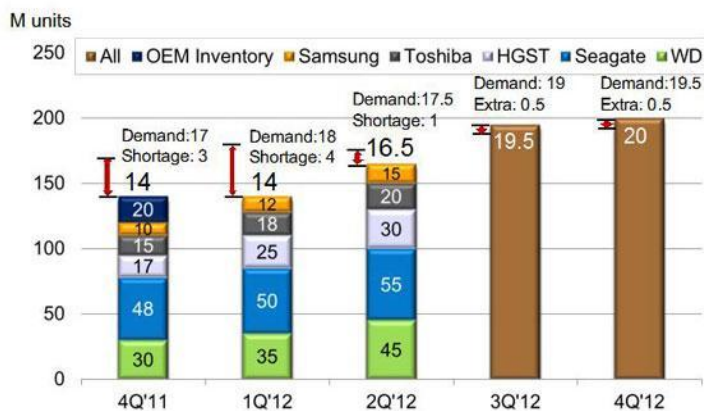
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pace is even faster, supply and demand may be able to reach balance in the second quarter of 2012 and to start seeing growth in the third quarter.

Since the first quarter of 2012 is not a peak season for shopping, while hard drive supply will see an obvious improvement, channel retailers, which are only receiving limited HDD supplies and have been storing HDD inventory to cause a surge in HDD prices, are expected to dump their HDD inventory in February after the Lunar New Year in China." (*Digitimes Research, December 2011*)

It is around this time period, that we expect to see costs begin to come down. We cannot predict how quickly or how far the prices will come down, because it is still projected that there will be a shortage through 2Q12. Please be aware, Avastor will not offer price protection on product purchases after September 1, 2011.

Global HDD supply/demand status, 4Q11-4Q-12



Source: Digitimes Research, December 2011

As always, we wish to thank you for your support and efforts in making Avastor one of the most respected brands in the industry!

Best Regards,

Jahret Sylvester
Director of Sales

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