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THREE KEYS TO EFFECTIVELY ADDRESSING THE GRAY MARKET

AGMA Offers Advice and Helpful Tips to Manufacturers to Avoid Losses of Revenue and Positive Brand Recognition to Gray Marketers

FREMONT, Calif., July 18, 2007 – Most companies today are aware of the damaging effects of the "gray market," however many have been unable to develop and implement an effective program in response.

Gray marketing is the sale of new, genuine goods and products outside authorized distribution channels without the consent or knowledge of the manufacturer. The practice poses risks to customers and can tarnish the reputation and value of quality brand names. A recent research study by KPMG indicates that the gray market costs the IT industry up to \$5 billion annually and negatively impacts customers who unknowingly purchase gray market products.

The Alliance for Gray Market and Counterfeit Abatement (AGMA), a non-profit organization dedicated to dealing with the gray marketing and counterfeiting of technology products around the globe, believes that these problems pose a serious threat to the global economy and the free market. The organization also believes that manufacturers that address gray market issues can help secure brand integrity of their products and help to protect consumers from receiving poor quality gray market goods.

Aiming to assist technology manufacturers in tackling gray market issues, AGMA has developed Three Keys to Effectively Addressing the Gray Market:

- Corporate awareness;
- Review entities in the company's distribution channels;

- Effective serial number tracking.

The first key is to build *corporate awareness*. It is important to educate all employees to recognize the gray market issue and develop strategies in response. Following are a few tips on building corporate awareness of this issue:

- Understand the scope of the issue and its root causes by mapping how products go to market and reviewing channel distribution structures, partner contracts, and reseller programs;
- Train employees, especially those in customer service, sales, product marketing and management, to recognize how gray marketing happens;
- Create compliance guidelines that detail a code of conduct, red flags, escalation process, internal and external deterrents, and important contact information.

The second key concerns strategies to *review* applicants seeking to enter the company's distribution channels. Manufacturers should review individual companies prior to authorization as a reseller or distributor. Following are tips for reviewing resellers and distributors:

- Verify corporate status and business license and check for subsidiaries and understand their business relationships (i.e. procurement, logistics...);
- Check for other entities associated with principals;
- Locate UCC filings;
- Conduct a civil litigation check;
- Inspect the Restricted Parties List (Government RPL);
- Check against known terrorist organizations and governmental de-barred lists;
- Verify criminal history of company and its principals;
- Perform a physical address verification in known gray market areas and cross-reference against known mail drops.

The third key is to develop an effective *serial number tracking* program. Implement a serial number tracking program that increases visibility of the flow of products throughout the distribution channel – from the manufacturer to the end user. Following are essential tips for establishing best practice guidelines for product tracking:

- Understand how the product flows through the entire distribution channel;

- Develop best practices including product returns and replacements, discount and warranty claims, and any other logistical scenarios;
- Conduct interviews and audits of distributors or resellers to address compliance with contractual and program terms and conditions;
- Summarize the output and findings of the compliance audit in a final report together with recommendations for improvement;
- Keep accurate records for serial number verification.

By implementing AGMA's Three Keys to Effectively Addressing the Gray Market, along with its tips and recommendations, IT companies can build a best practice process that provides valuable benefits to all partners involved, as well as consumers and the IT industry as a whole.

To view AGMA's most recent whitepapers that address the issues of Gray Market and IT counterfeiting please visit their website at www.agmaglobal.org.

About AGMA

AGMA is a non-profit organization comprised of influential companies in the technology sector including founding members 3Com Corporation [NASDAQ: COMS], Cisco Systems, Inc. [NASDAQ: CSCO], HP [NYSE, Nasdaq: HPQ] and Nortel [NYSE/TSX: NT]. Incorporated in 2001, AGMA's mission is to mitigate the gray marketing and counterfeiting of technology products around the globe. The organization's goals are to protect the authorized distribution channels and intellectual property of authorized goods to improve customer satisfaction and preserve brand integrity. AGMA is open to any technology manufacturer that owns a branded IT product. For more information, please visit www.agmaglobal.org.

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