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Optional Spot Buy Pricing for 2022

As all of us in the electronics industry are acutely aware, there is a major shortage of components. At NetBurner, we started planning for shortages back in of June 2020. Purchase orders were put in place and confirmed by semiconductor manufacturers. Our goal was to have as much supply as we could, regardless of inventory costs. We enrolled in programs such as the Microchip Preferred Supplier Program, which required non-cancellable orders for an upfront purchase of a year's supply of product in exchange for a more reliable supply. Basically, we have done everything we can to ensure a stable supply of parts for our customers.

However, the semiconductor manufacturers are defaulting on their promises to a degree that seems unimaginable. For example, we have a confirmed order that was placed in February 2021 for 12 months of supply starting in September 2021. We received the August, September, and October shipments. However, we have recently been told that they will default, and all shipments from November forward are now scheduled for December 2022. This particular part is an Ethernet PHY chip used in older products based on the ColdFire 52xx series of microprocessors, such as the MOD5270, MOD5282 and MOD5234. At the moment, this chip is the only item holding up production.

I'm sure the question that comes to mind is, "What can we do about this situation?" NetBurner is working on the problem from several angles:

1. We are working daily with the supply chain to ensure we are among the first to receive any new product when available.
2. We are investigating a re-design of the affected devices. Depending on the component, this may mean that software applications would have to be re-built with an additional software driver to use both the old and new components.
3. We are searching for any parts that become available on the open market. This brings us to the subject of this letter, the spot purchase option, which will be addressed next.

Most of the time companies use strategic purchasing. These are purchases made in advance to the company manufacturing plan. A spot purchase is an unplanned purchase. It can be done for many reasons, such as an unexpected price drop, but in this case, it is used to purchase parts at a significant premium that are otherwise unavailable. At our own financial risk, we have procured a quantity of components that are in default from the manufacturers. The premium is significant. In the case of the Ethernet PHY, the standard price is \$1.90 and the spot buy price is \$25.

While quantities last, and where possible, NetBurner will offer some products with a spot buy adder to help offset the additional cost to build the devices. The spot buy adder will not change the base cost of the device, and orders can still be placed without it. However, orders without the spot buy adder will be subject to the extended lead time. The best way to describe it is to say that we are offering the spot buy as an option to those who need a particular product before the semiconductor manufacturers are able to resume supply, which may be quite some time.

Spot Buy Pricing Key Points:

1. A spot buy price is an amount added to the base unit cost to help offset some of the additional costs of the product.
2. It does not affect, nor is it available, on all products.
3. Products can be ordered without spot buy pricing, with delivery dependent on component availability.
4. Subject to semiconductor manufacturer defaults, existing orders may need to be rescheduled. The spot buy option may be available for these orders as an alternative.
5. Quantities are limited. The spot buy option is only available while the quantities of components last.

Please contact NetBurner Sales, sales@netburner.com, for specific questions and quotations.

This is a difficult situation for all of us, thank you for your continued business, loyalty, and support.

Sincerely,

The NetBurner Team